

# Te Pūrongo ā-Tau 2018/2019

A TE KAUNIHERA O TĀMAKI MAKĀURAU

## Auckland Council Annual Report 2018/2019





ON THE COVER: Kennedy Williams lost in a book at Te Whare Tapere - Childrens Space, Te Manawa library.  
THIS PAGE: Whatipu Beach.

# Mihi

Noho mai rā Tāmaki Makaurau,  
 moana waipiata,  
 maunga kākārīki.  
 Mai i ngā wai kaukau o ngā tūpuna,  
 ki ngā puke kawē i ngā reo o te tini,  
 i puta ai te kī mōu.  
 Tū ana he maunga,  
 takoto ana he raorao,  
 heke ana he awaawa.  
 Ko ō wahapū te ataahua,  
 ō tāhuna te mahora,  
 te taiao e whītiki nei i a koe he taonga tuku iho.  
 Tiakina kia meinga tonu ai koe  
 ko 'te tāone taioreore nui o te ao,  
 manakohia e te iwi pūmanawa'.  
 Tāmaki Mākaurau tirohia te pae tawhiti  
 he whakairinga tūmanako  
 mō ngā uri whakaheke ō āpōpō,  
 te toka herenga mō te hunga ka takahi ake  
 mā ō tomokanga,  
 te piriti e whakawhiti ai  
 tō iwi ki ngā huarahi o te ora.  
 Tāmaki Mākaurau e toro whakamua,  
 hīkina te mānuka.  
 Tērā te rangi me te whenua te tūtaki.  
 Maranga me te rā, he mahi māu me tīmata,  
 ka nunumi ana ki te pō,  
 whakatārewahia ō moemoeā ki ngā whetū.  
 Ko te oranga mutunga mōu  
 kei tua i te taumata moana.  
 Tūwherahia ō ringa, kūmea mai ki tō uma.  
 Tāmaki Makaurau  
 he tāone ūmanga kurupounamu koe;  
 tukua tō rongō kia rere i te ao.

Tāmaki Makaurau  
 who bestrides shimmering seas,  
 and verdant mountains.  
 From the bathing waters of our forebears,  
 and hills that echo with voices  
 that acclaim.  
 Your mountains stand lofty,  
 your valleys spread from them  
 and your streams run freely.  
 Your harbours are majestic,  
 your beaches widespread,  
 the environment that surrounds you is a legacy.  
 Take care of it so that you will always be known  
 as 'the world-class city  
 where talent wants to be'.  
 Tāmaki Makaurau looking to the future,  
 repository of our hopes  
 for generations to come,  
 anchor stone for those who venture  
 through your gateway,  
 and the bridge that connects  
 your citizens to life.  
 Tāmaki Makaurau moving on,  
 accepting all challenges.  
 Where even heaven and earth might meet.  
 Rise with the sun as there is work to be done  
 and when evening comes,  
 allow your dreams to glide among the stars.  
 Perpetual health and growth  
 is beyond the horizon of cresting waves.  
 Open your arms and pull them to your embrace.  
 Tāmaki Makaurau, you are a city  
 where valued business and enterprise thrives;  
 let your good name traverse the world.





# Nau mai, haere mai

## Welcome

### Auckland Council's Annual Report 2018/2019

Auckland Council is here to deliver the services and infrastructure required for Auckland to grow into a more prosperous region, one that gives a voice to our communities and is a great place to live, visit and invest.

This report is for the Auckland Council Group, which includes the council, council-controlled organisations, subsidiaries, associates and joint ventures. For more information about the group's operating structure see Volume 1.

Auckland Council Group is required by the Local Government Act 2002 to prepare and adopt an annual report that demonstrates to Aucklanders how we are fulfilling our role by reporting on the past year's highlights and performance against budgets and service targets.

The Annual Report 2018/2019 covers the period 1 July 2018 to 30 June 2019, and reports against the Long-term Plan 2018-2028 and the Annual Plan 2018/2019.

### Annual Report 2018/2019

The full report includes detailed disclosure information and is split into three volumes.

#### **Volume 1: Overview and service performance**

Volume 1 contains an overview of the performance results for the year, together with detailed results against financial and non-financial targets for our regional groups of activities.

#### **Volume 2: Local boards**

Volume 2 contains detailed results against financial and non-financial targets for our local boards.

#### **Volume 3: Financial statements**

Volume 3 contains our financial statements.

# Ngā Upoko Kōrero

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# He kōrero mō tēnei kōwae

## About this volume

This volume of the annual report contains the financial statements of the Auckland Council Group (the group) and Auckland Council (the council) for the year ended 30 June 2019. The group includes the council, its subsidiaries (council-controlled organisations and Ports of Auckland Limited), associates and joint ventures.

The Auckland Council Annual Report 2018/2019 was adopted by Auckland Council on 26 September 2019.

The references to documents and information on the council and others' websites are provided solely for the convenience of the readers who may require more detailed information and none of the documents or other information on those websites forms part of the Auckland Council Annual Report 2018/2019.

For the clarity and usefulness of this report, this volume has the following sections:





- Group Funding Impact Statement
- Primary Group Financial Statements
- Section A: Results of the year
- Section B: Long-term assets

- Section C: Borrowings and financial instruments
- Section D: Working capital and equity
- Section E: Financial risk management
- Section F: Other disclosures
- Section G: Financial reporting and prudence benchmarks
- Section H: Council-controlled organisations

The notes to the financial statements contain detailed financial information as well as the relevant accounting policies, explanations of significant variances against budget and local government disclosures.

Signposting has been used throughout this volume of the Auckland Council Annual Report 2018/2019 to provide readers with a clearer understanding of key information in the financial report.

In addition to signposting, accounting policies are denoted by the box surrounding them and significant judgement and estimates are denoted by green highlights. The following signposts have been used throughout this volume of the Auckland Council Annual Report 2018/2019.

Signposts	Explanation
	Accounting policy
	Significant judgement and estimates
	Explanation of significant variances against budget
	Local government disclosures

# Te tauākī whakaaweawenga tuku pūtea a te Rōpū o te Kaunihera o Tāmaki Makaurau

## AUCKLAND COUNCIL GROUP FUNDING IMPACT STATEMENT

“He panehe toki ka tu te tangitangi kai

*A little stone adze used well will stop the cries for food.*

*The small stone adze signifies the limited funding  
but if we are skilled in the way it is used this could  
provide sufficient to achieve our goals.*”

# Te tauākī whakaaweawenga tuku pūtea a te Rōpū o te Kaunihera o Tāmaki Makaurau

## Auckland Council Group funding impact statement

### For the year ended 30 June 2019

\$million	Actual 2019	Annual plan 2019	Actual 2018	Annual plan 2018
<b>Sources of operating funding:</b>				
General rates, uniform annual general charge, rates penalties	1,581	1,588	1,514	1,517
Targeted rates	214	213	200	198
Subsidies and grants for operating purposes	308	287	286	274
Fees and charges	1,285	1,348	1,261	1,256
Interest and dividends from investments	82	71	94	68
Local authorities fuel tax, fines, infringement fees and other receipts	502	430	308	289
<b>Total operating funding</b>	<b>3,972</b>	<b>3,937</b>	<b>3,663</b>	<b>3,602</b>
<b>Applications of operating funding:</b>				
Payment to staff and suppliers	2,632	2,588	2,444	2,419
Finance costs	457	467	456	455
Other operating funding applications	-	-	-	8
<b>Total applications of operating funding</b>	<b>3,089</b>	<b>3,055</b>	<b>2,900</b>	<b>2,882</b>
<b>Surplus (deficit) of operating funding</b>	<b>883</b>	<b>882</b>	<b>763</b>	<b>720</b>
<b>Sources of capital funding:</b>				
Subsidies and grants for capital expenditure	304	412	211	403
Development and financial contributions	178	204	180	214
Increase (decrease) in debt	180	592	(57)	354
Gross proceeds from sale of assets	168	177	449	115
Lump sum contributions	-	-	-	-
Other dedicated capital funding	-	-	-	-
<b>Total sources of capital funding</b>	<b>830</b>	<b>1,385</b>	<b>783</b>	<b>1,086</b>
<b>Applications of capital funding:</b>				
Capital expenditure:				
- to meet additional demand	601	980	625	798
- to improve the level of service	793	540	426	609
- to replace existing assets	581	658	619	610
Increase (decrease) in reserves	134	32	34	65
Increase (decrease) in investments	(396)	57	(158)	(276)
<b>Total applications of capital funding</b>	<b>1,713</b>	<b>2,267</b>	<b>1,546</b>	<b>1,806</b>
<b>Surplus (deficit) of capital funding</b>	<b>(883)</b>	<b>(882)</b>	<b>(763)</b>	<b>(720)</b>
<b>Funding balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>



# He pito kōrero mō te tauākī whakaaweawenga tuku pūtea a te Rōpū o te Kaunihera o Tāmaki Makaurau

## Notes to the Auckland Council Group funding impact statement

### For the year ended 30 June 2019

Auckland Council (the council) is a local authority domiciled in New Zealand and governed by the following legislation:

- Local Government Act 2002 (LGA 2002);
- Local Government (Auckland Council) Act 2009 (LGACA 2009); and
- Local Government (Rating) Act 2002.

The Auckland Council Group (the group) consists of the council, its subsidiaries, associates and joint ventures. A summary of subsidiaries is provided in the basis of reporting, in the notes to the group financial statements.

### Basis of preparation

The group funding impact statement has been prepared:

- in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), the Local Government Act 2002 and the Local Government (Financial Reporting and Prudence) Regulations 2014;
- on a historical cost basis using accrual accounting; and
- in New Zealand dollars (NZD) rounded to the nearest million dollars, unless otherwise stated.

### Annual plan figures

The annual plan figures presented in the financial statements of the group and the council are those included in the amended Long-term Plan 2018-2028 (LTP) adopted by the Governing Body in June 2019 and the Annual Plan 2017/2018. The accounting policies used to prepare the funding impact statement are consistent with those used to prepare the planned funding impact statements.

### Commentary

#### Sources of operating funding

Sources of operating funding exceeded plan by \$35 million. Within the sources of operating funding there were a number of items which were significantly different from the plan.

The items that contributed most favourably to operating funding compared to plan are detailed below:

#### Local authorities fuel tax, fines, infringement fees and other receipts

- Infrastructure growth charges received by Watercare Services Limited were \$14 million higher than plan as a result of the high level of development in Auckland.
- Infringement revenue was planned under fees and charges but are reported in this line within infringement fees. As part of Auckland Transport's safety campaign, new traffic cameras were installed on Queen Street, Khyber Pass and Hobson Street. A higher number of infringement notices were issued than planned expected resulting in infringement revenue being \$10 million more than planned;
- The Regional Fuel Tax collected \$6 million more than planned due to higher than anticipated volumes of fuel purchased in Auckland region.

#### Subsidies and grants for operating purposes

- Subsidies and grants for operating purposes are \$21 million favourable to plan. This was as a result of higher operating subsidies received from the New Zealand Transport Agency due to higher qualifying transport-related administration costs incurred, coupled with actual proportion of costs recovered being higher than originally planned.

The favourable results were partially offset by fees and user charges which were \$15 million below plan. This unfavourable result arose due to temporary operational constraints at Ports of Auckland Limited while undertaking its straddle carrier automation project. Furthermore, there was a loss of business due to services being withdrawn from the market following a consolidation of shipping lines.

## Notes to the Auckland Council Group funding impact statement (continued)

### Applications of operating funding

Applications of operating funding were \$34 million unfavourable to plan. This is mainly because payments to staff and suppliers were \$44 million unfavourable to plan partly offset against finance costs which were \$10 million favourable to plan.

### Payment to staff and suppliers

Payment to staff and suppliers is unfavourable to the annual plan due to additional spend on repairs and maintenance and an increase in the provision for remediation of contaminated land and closed landfills.

- The provision for remediation of contaminated land and closed landfills provision increased by \$20 million due to cost escalations particularly in relation to the landslip at Rawene Reserve, Birkenhead, which unearthed a closed landfill.
- Repairs and maintenance costs were \$15 million higher than planned. These increased costs included unplanned maintenance on water networks and Mangere Wastewater Treatment Plant, unplanned sports fields renovations and maintenance, and maintenance on assets transferred from developers more than what was planned.
- Waste solutions costs exceeded plan by \$8 million. This was driven by increases in the cost of recycling as China stopped accepting plastics for recycling. It also resulted from unanticipated growth in waste and recycling, and costs of projects such as food waste collection pilot, illegal dumping collection and inorganic waste recycling.

### Finance costs

Finance costs are favourable to plan due to lower borrowing levels during the year as a result of lower than planned capital expenditure.

### Source of capital funding

Sources of capital funding were lower than planned, mainly as a result of lower borrowings. Funding from subsidies and grants for capital expenditure and development and financial contributions were also lower than projected.

### Increase (decrease) in debt

Delays in capital expenditure across the group resulted in a lower debt requirement for the year. The group's debt is only incurred as funding is required for the delivery of capital projects.

### Subsidies and grants for capital expenditure

- Capital subsidies received from the New Zealand Transport Agency (NZTA) were lower than anticipated because the required funding targets had not been achieved and there was an under-delivery of qualifying capital projects.
- The council has entered into a cost-sharing agreement with the Ministry of Business, Innovation and Employment (MBIE) to provide funding for the design and construction of infrastructure assets to host the 36<sup>th</sup> America's Cup. In terms of the agreement the council pays the operating and capital costs upfront and seeks reimbursement from MBIE for its allocated portion by way of capital grant. During the year, the capital grant from the MBIE was not received in full because of construction delays, however the full amount will be received in future years.

### Development and financial contributions

- Development contributions were \$27 million lower than planned due to the growth in new developments being lower than expected, as well as the implementation of a new development contributions policy being delayed.

### Applications of capital funding

#### Capital expenditure

Total capital expenditure is below plan mainly due to delays in the delivery of physical works and land acquisitions. This is a result of various factors, including the timing of awarding of contracts, granting of consents and capacity constraints in the construction industry. Notable items that were delayed include the development of the downtown public spaces, the construction of the America's Cup 36 infrastructure and the acquisition of properties at the Transform and Unlock priority locations including the Northcote Town Centre.

## Notes to the Auckland Council Group funding impact statement (continued)

### Decrease in investments

The decrease in investments reflects the decrease in cash holdings during the year. The budget assumed that cash levels would increase to support increased capital expenditure, however capital expenditure was below budget.

### Reconciliation of surplus of operating funding to operating surplus before gains and losses

The following reconciliation bridges the difference between the funding impact statement and the statement of comprehensive revenue and expenditure.

\$million	Actual 2019	Actual 2018
<b>Surplus of operating funding</b>	<b>883</b>	<b>763</b>
Operating surplus items not included in operating funding		
Depreciation and amortisation	(922)	(865)
Vested assets	486	572
Development and financial contributions	178	182
Capital grants and subsidies	304	211
Provision for remediation of weathertightness claims expense	(49)	(82)
Prepaid lease amortisation	-	(23)
Other revenue and expense items	(21)	(34)
Items in operating funding not included operating surplus		
Retrofit your home principal loan repayments	(5)	(8)
Dividends from associates and joint ventures	(63)	(57)
<b>Operating surplus before gains and losses</b>	<b>791</b>	<b>659</b>

Further detailed variance commentary can be found in the groups of activities funding impact statements in Volume 1 of this annual report.

# Ngā Tauākī Tahua Pūtea

## FINANCIAL STATEMENTS

“ E hara tōku toa i te toa takutahi  
Engari, he toa takitini

*My strength is not the strength of one  
But, the strength of many* ”

## Tauāki ā-moni whiwhi, ā-whakapaunga pūtea

### Statement of comprehensive revenue and expenditure

#### For the year ended 30 June 2019

\$million	Note	Group			Auckland Council		
		Actual 2019	Budget 2019	Actual 2018	Actual 2019	Budget <sup>1</sup> 2019	Actual 2018
<b>Revenue</b>							
Rates		1,790	1,797	1,707	1,802	1,806	1,718
Fees and user charges		1,333	1,348	1,261	287	277	268
Grants and subsidies		612	699	497	60	70	22
Development and financial contributions		178	204	182	178	205	182
Other revenue		464	418	287	565	514	180
Vested assets		486	284	572	119	84	226
Finance revenue measured using effective interest method		15	-	37	38	-	107
Other finance revenue		1	13	-	85	133	-
<b>Total revenue excluding other gains</b>	A1	<b>4,879</b>	<b>4,763</b>	<b>4,543</b>	<b>3,134</b>	<b>3,089</b>	<b>2,703</b>
<b>Expenditure</b>							
Employee benefits	A3	911	905	866	532	536	500
Depreciation and amortisation	A4	922	954	865	268	276	261
Grants, contributions and sponsorship	A2	144	141	133	1,035	1,046	1,030
Other operating expenses	A2	1,633	1,540	1,548	631	530	613
Finance costs	A5	478	474	472	453	456	408
<b>Total expenditure excluding other losses</b>		<b>4,088</b>	<b>4,014</b>	<b>3,884</b>	<b>2,919</b>	<b>2,844</b>	<b>2,812</b>
<b>Operating surplus/(deficit) before gains and losses</b>							
		<b>791</b>	<b>749</b>	<b>659</b>	<b>215</b>	<b>245</b>	<b>(109)</b>
Net other gains/(losses)	A6	(651)	-	(112)	(585)	-	(117)
Share of net surplus in associates and joint ventures		93	67	147	90	65	2
<b>Surplus/(deficit) before income tax</b>		<b>233</b>	<b>816</b>	<b>694</b>	<b>(280)</b>	<b>310</b>	<b>(224)</b>
Income tax expense	A7	58	34	34	-	-	-
<b>Surplus/(deficit) after income tax</b>		<b>175</b>	<b>782</b>	<b>660</b>	<b>(280)</b>	<b>310</b>	<b>(224)</b>
<b>Other comprehensive revenue/(expenditure)</b>							
Net gain on revaluation of property, plant and equipment		41	-	2,362	-	-	936
Tax on revaluation of property, plant and equipment		(11)	-	(276)	-	-	-
Movement in cash flow hedge reserve		(4)	-	5	-	-	-
Share of associates and joint ventures reserves		7	-	264	7	-	-
Gains/(losses) from investments in equity instruments		-	-	7	-	-	-
Deferred tax written back to revaluation reserve on asset transfer		27	-	-	-	-	-
<b>Total other comprehensive revenue</b>		<b>60</b>	<b>-</b>	<b>2,362</b>	<b>7</b>	<b>-</b>	<b>936</b>
<b>Total comprehensive revenue/ (expenditure)</b>		<b>235</b>	<b>782</b>	<b>3,022</b>	<b>(273)</b>	<b>310</b>	<b>712</b>

Explanations of significant variances against budget are included within the notes.

<sup>1</sup>The Auckland Council budget represents the 10-year Budget 2018-2028 that was amended in June 2019. Refer to basis of reporting in the notes to the financial statements for further information.

The accompanying notes to the financial statements form part of, and are to be read in conjunction with, these financial statements.

## Tauāki ā-tūāhua tahua pūtea

### Statement of financial position

As at 30 June 2019

\$million	Note	Group			Auckland Council		
		Actual 2019	Budget 2019	Actual 2018	Actual 2019	Budget <sup>1</sup> 2019	Actual 2018
<b>Assets</b>							
<b>Current assets</b>							
Cash and cash equivalents	D1	294	200	618	205	180	584
Receivables and prepayments	D2	475	415	379	318	326	233
Derivative financial instruments	C2	3	-	7	9	-	2
Other financial assets	C3	56	51	151	61	136	156
Inventories		48	37	41	13	12	13
Non-current assets held-for-sale	F1	59	104	35	3	104	33
<b>Total current assets</b>		<b>935</b>	<b>807</b>	<b>1,231</b>	<b>609</b>	<b>758</b>	<b>1,021</b>
<b>Non-current assets</b>							
Receivables and prepayments	D2	41	11	10	8	8	4
Derivative financial instruments	C2	441	170	282	442	173	278
Other financial assets	C3	131	165	121	2,316	2,036	2,029
Property, plant and equipment	B1	48,196	47,283	46,730	15,717	15,663	14,908
Intangible assets	B2	640	512	563	301	277	304
Investment property	B3	629	735	761	498	606	133
Investment in subsidiaries*	F3	-	-	-	19,731	20,787	20,630
Investment in associates and joint ventures	F3	1,850	1,639	1,751	1,849	552	322
Other non-current assets		10	11	13	3	4	3
<b>Total non-current assets</b>		<b>51,938</b>	<b>50,526</b>	<b>50,231</b>	<b>40,865</b>	<b>40,106</b>	<b>38,611</b>
<b>Total assets</b>		<b>52,873</b>	<b>51,333</b>	<b>51,462</b>	<b>41,474</b>	<b>40,864</b>	<b>39,632</b>
<b>Liabilities</b>							
<b>Current liabilities</b>							
Bank overdraft	D1	3	-	8	-	-	-
Payables and accruals	D3	869	889	688	680	666	623
Employee entitlements	D4	106	101	100	59	58	54
Borrowings	C1	1,172	1,252	905	1,172	1,109	764
Derivative financial instruments	C2	9	7	5	8	2	3
Provisions	D5	171	66	127	165	61	120
<b>Total current liabilities</b>		<b>2,330</b>	<b>2,315</b>	<b>1,833</b>	<b>2,084</b>	<b>1,896</b>	<b>1,564</b>
<b>Non-current liabilities</b>							
Payables and accruals	D3	106	86	104	98	81	55
Employee entitlements	D4	5	5	5	1	2	2
Borrowings	C1	7,786	7,988	7,927	7,291	7,656	7,549
Derivative financial instruments	C2	1,839	865	963	1,830	862	733
Provisions	D5	299	289	405	290	282	398
Deferred tax liabilities	F2	1,466	1,310	1,423	-	-	-
<b>Total non-current liabilities</b>		<b>11,501</b>	<b>10,543</b>	<b>10,827</b>	<b>9,510</b>	<b>8,883</b>	<b>8,737</b>
<b>Total liabilities</b>		<b>13,831</b>	<b>12,858</b>	<b>12,660</b>	<b>11,594</b>	<b>10,779</b>	<b>10,301</b>
<b>Net assets</b>		<b>39,042</b>	<b>38,475</b>	<b>38,802</b>	<b>29,880</b>	<b>30,085</b>	<b>29,331</b>
<b>Equity</b>							
Contributed equity	D6	26,732	26,729	26,732	26,569	26,569	26,569
Accumulated funds	D6	1,788	2,264	1,667	(1,263)	(203)	(997)
Reserves	D6	10,522	9,482	10,403	4,574	3,719	3,759
<b>Total equity</b>		<b>39,042</b>	<b>38,475</b>	<b>38,802</b>	<b>29,880</b>	<b>30,085</b>	<b>29,331</b>

\*Total investments in council-controlled organisations and entities listed in Local Government Act 2002 section 6(4) of Auckland Council for 2019 is \$20 billion (2018: \$21 billion).

<sup>1</sup>The Auckland Council budget represents the 10-year Budget 2018-2028 that was amended in June 2019. Refer to basis of reporting in the notes to the financial statements for further information.

The accompanying notes to the financial statements form part of, and are to be read in conjunction with, these financial statements.

## Tauāki mō ngā panonitanga ā-hua uara

### Statement of changes in equity

For the year ended 30 June 2019

<b>Group</b>						
\$million	Note	Contributed equity	Accumulated funds	Reserves	Total equity	Budget
<b>Balance as at 1 July 2017</b>		26,728	951	8,097	35,776	34,170
Surplus after income tax		-	660	-	660	568
Other comprehensive revenue		-	-	2,362	2,362	1,183
<b>Total comprehensive revenue</b>		-	660	2,362	3,022	1,751
Found assets		4	-	-	4	-
Transfers (from)/to reserves	D6	-	56	(56)	-	-
<b>Balance as at 30 June 2018</b>	D6	26,732	1,667	10,403	38,802	35,921
<b>Balance as at 1 July 2018</b>		26,732	1,667	10,403	38,802	37,693
Adjustment on adoption of PBE IFRS 9		-	5	-	5	-
<b>Adjusted balance as at 1 July 2018</b>		26,732	1,672	10,403	38,807	37,693
Surplus after income tax excluding PBE IFRS 9 adjustment above		-	175	-	175	782
Other comprehensive revenue		-	-	60	60	-
<b>Total comprehensive revenue excluding PBE IFRS 9 adjustment above</b>		-	175	60	235	782
Transfers (from)/to reserves	D6	-	(59)	59	-	-
<b>Balance as at 30 June 2019</b>	D6	26,732	1,788	10,522	39,042	38,475
<b>Auckland Council</b>						
\$million	Note	Contributed equity	Accumulated funds	Reserves	Total equity	Budget <sup>1</sup>
<b>Balance as at 1 July 2017</b>		26,569	(824)	2,852	28,597	28,577 <sup>A</sup>
(Deficit)/surplus after income tax		-	(224)	-	(224)	274
Other comprehensive revenue		-	-	936	936	491
<b>Total comprehensive revenue/(expenditure)</b>		-	(224)	936	712	765
Transfers to/(from) reserves	D6	-	29	(29)	-	-
Return of equity		-	22	-	22	-
<b>Balance as at 30 June 2018</b>	D6	26,569	(997)	3,759	29,331	29,342 <sup>A</sup>
<b>Balance as at 1 July 2018</b>		26,569	(997)	3,759	29,331	29,775
Adjustment on adoption of PBE IFRS 9		-	5	-	5	-
<b>Adjusted balance as at 1 July 2018</b>		26,569	(992)	3,759	29,336	29,775
(Deficit)/surplus after income tax excluding PBE IFRS 9 adjustment above		-	(280)	-	(280)	310
Other comprehensive revenue		-	-	7	7	-
<b>Total comprehensive revenue/(expenditure) excluding PBE IFRS 9 adjustment above</b>		-	(280)	7	(273)	310
Transfers to/(from) reserves	D6	-	(90)	90	-	-
Return of equity		-	99	718	817	-
<b>Balance as at 30 June 2019</b>	D6	26,569	(1,263)	4,574	29,880	30,085

<sup>A</sup>Due to a clerical error in the published Annual Budget 2017/2018, the approved figures of \$28,890 million and \$29,655 million did not reconcile to the Statement of Financial Position. These figures have been corrected to \$28,577 million and \$29,342 million respectively as shown above.

<sup>1</sup>The Auckland Council budget represents the 10-year Budget 2018-2028 that was amended in June 2019. Refer to basis of reporting in the notes to the financial statements for further information.

The accompanying notes to the financial statements form part of, and are to be read in conjunction with, these financial statements.

## Tauāki ā-moni utu, whiwhinga rānei

### Statement of cash flows

For the year ended 30 June 2019

\$million	Note	Group			Auckland Council		
		Actual 2019	Budget 2019	Actual 2018	Actual 2019	Budget 2019	Actual 2018
<b>Cash flows from operating activities</b>							
Receipts from rates, grants and other services		4,328	4,443	3,972	2,479	2,643	2,286
Interest received		17	13	37	16	133	35
Dividends received		65	61	68	111	14	117
Payments to suppliers and employees		(2,682)	(2,576)	(2,523)	(2,165)	(2,134)	(2,020)
Income tax refund/(paid)		(14)	-	4	-	-	-
Interest paid		(466)	(468)	(457)	(433)	(451)	(392)
<b>Net cash inflow/(outflow) from operating activities</b>	F6	<b>1,248</b>	<b>1,473</b>	<b>1,101</b>	<b>8</b>	<b>205</b>	<b>26</b>
<b>Cash flows from investing activities</b>							
Repayment of loans to related parties		-	-	-	481	-	94
Advances of loans to related parties		-	-	-	(618)	(149)	(254)
Proceeds from sale of property, plant and equipment, investment property and intangible assets		168	177	257	137	177	237
Acquisition of property, plant and equipment, investment property and intangible assets		(1,899)	(2,129)	(1,665)	(591)	(617)	(471)
Acquisition of other financial assets		(18)	(4)	(132)	(33)	(4)	(123)
Proceeds from sale of other financial assets		132	1	284	133	-	284
Receipts from the Crown		-	-	218	-	-	218
Investment in joint ventures		(65)	(235)	(93)	(65)	(235)	(93)
Advances (to)/from external parties		(1)	(50)	(3)	-	(50)	-
Proceeds from community loan repayments		-	2	-	-	2	-
<b>Net cash outflow from investing activities</b>		<b>(1,683)</b>	<b>(2,238)</b>	<b>(1,134)</b>	<b>(556)</b>	<b>(876)</b>	<b>(108)</b>
<b>Cash flows from financing activities</b>							
Proceeds from borrowings		2,432	1,773	3,947	1,379	1,544	2,105
Repayment of borrowings		(2,282)	(1,181)	(3,640)	(1,175)	(1,046)	(1,725)
Receipts from derivative financial instruments		35	-	48	35	-	48
Payments for derivative financial instruments		(69)	-	(43)	(70)	-	(41)
<b>Net cash inflow from financing activities</b>		<b>116</b>	<b>592</b>	<b>312</b>	<b>169</b>	<b>498</b>	<b>387</b>
<b>Net increase/(decrease) in cash and cash equivalents and bank overdraft</b>		<b>(319)</b>	<b>(173)</b>	<b>279</b>	<b>(379)</b>	<b>(173)</b>	<b>305</b>
Opening cash and cash equivalents and bank overdraft		610	373	331	584	353	279
<b>Closing cash and cash equivalents and bank overdraft</b>	D1	<b>291</b>	<b>200</b>	<b>610</b>	<b>205</b>	<b>180</b>	<b>584</b>

The accompanying notes to the financial statements form part of, and are to be read in conjunction with, these financial statements.



# He pito kōrero mō ngā tauākī tahua pūtea

—  
NOTES TO THE FINANCIAL  
STATEMENTS

“Ko te pae tawhiti whāia kia tata  
Ko te pae tata whakamaua kia tina  
*Endure until distant goals are near  
Once near seize them and keep them close*”

## Basis of reporting

This section contains the significant accounting policies of the Auckland Council Group and Auckland Council that relate to the financial statements as a whole. Significant accounting policies are also included in the related note disclosures.

Auckland Council (the council) is a local authority domiciled in New Zealand and governed by the following legislation:

- Local Government Act 2002 (LGA 2002);
- Local Government (Auckland Council) Act 2009 (LGACA 2009); and
- Local Government (Rating) Act 2002.

The council is an FMC Reporting Entity under the Financial Markets Conduct Act 2013 (FMCA 2013).

The council's principal address is 135 Albert Street, Auckland Central, New Zealand.

The Auckland Council Group (the group) consists of the council, its subsidiaries, associates and joint ventures. A summary of subsidiaries (including substantive CCOs<sup>1</sup>) is provided on the next page. Other significant entities are listed in Note F3. All entities are domiciled in New Zealand.

The primary objective of the group and the council is to provide services and facilities to the Auckland community for social benefit rather than to make a financial return. Accordingly, the council has designated itself and the group as public benefit entities (PBEs) and applies New Zealand Tier 1 PBE Accounting Standards. These standards are based on International Public Sector Accounting Standards (IPSAS), with amendments for the New Zealand environment.

### Basis of preparation

The financial statements have been prepared:

- in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), the LGA 2002, the LGACA 2009 and the Local Government (Financial Reporting and Prudence) Regulations 2014 and comply with PBE Accounting Standards;
- on a historical cost basis, except for certain financial instruments which have been measured at fair value (Note C2), certain classes of property, plant and equipment (Note B1) and investment property (Note B3) which have been subsequently measured at fair value;
- on a going concern basis and the accounting policies have been applied consistently throughout the period; and
- in New Zealand dollars (NZD) and are rounded to the nearest million dollars, unless otherwise stated.

All items in the financial statements are stated exclusive of Goods and Services Tax (GST), except for receivables and payables, which include GST.



### Significant judgements and estimates

The preparation of the financial statements requires judgements, estimates and assumptions. Application is based on future expectations as well as historical experience and other factors, as appropriate to the particular circumstances. Judgements and estimates which are considered material to understanding the performance of the group and the council are found in the following notes:

Note B1: Property, plant and equipment  
 Note C2: Derivative financial instruments  
 Note D5: Provisions

### Basis of consolidation

The consolidated financial statements are prepared by adding together like items in the group on a line-by-line basis. Transactions and balances between the council and its CCOs and subsidiaries are eliminated on consolidation. Investment in CCOs and other subsidiaries, as disclosed in Note F3, are carried at cost less any accumulated impairment. Where necessary, adjustments are made to the financial statements of CCOs to bring their accounting policies in line with the group.

<sup>1</sup>Section 4(1) of the LGACA 2009 defines substantive CCOs as a CCO that is either wholly owned or wholly controlled by Auckland Council and either is responsible for the delivery of a significant service or activity on behalf of Auckland Council; or owns or manages assets with a value of more than \$10 million. It includes Auckland Transport and excludes entities exempted from CCO status.

## Basis of reporting

### Basis of consolidation (continued)

The substantive subsidiaries within the group comprise the following:

Name	Principal activities and nature of relationship where there is no direct ownership	CCO	Percentage ownership %	
			2019	2018
Auckland Transport	Owns the public transport network and manages the transport infrastructure and services in Auckland. <i>*Auckland Transport is a body corporate with perpetual succession and is treated under the LGACA 2009 as if Auckland Council is its sole shareholder.</i>	Yes	*	*
Auckland Council Investments Limited	<sup>^</sup> On 2 July 2018, Auckland Council Investments Limited transferred its share in Ports of Auckland Limited and Auckland International Airport Limited to the council. It was removed from the Companies Register on 22 November 2018.	No longer	^	100
Auckland Tourism, Events and Economic Development Limited	Manages projects for economic development, tourism and events promotion in the Auckland region.	Yes	100	100
Panuku Development Auckland Limited	Facilitates the development and rejuvenation of urban locations including the Auckland waterfront. Optimises the council's property portfolio.	Yes	100	100
Ports of Auckland Limited	Owns and operates Auckland's port which handles containers and is a tourism hub for cruise ships.	No	100	100
Regional Facilities Auckland	Supports and promotes the engagement of the Auckland community in arts, culture, heritage, leisure, sports and entertainment activities and develops, owns and manages the venues for these activities. <i>*Regional Facilities Auckland is a charitable trust of which Regional Facilities Auckland Limited, a 100% owned subsidiary of Auckland Council, is the sole trustee.</i>	Yes	*	*
Watercare Services Limited	Owns and manages the Auckland region's water and wastewater assets. <i>Watercare Services Limited is restricted by LGACA 2009 section 57(1)(b) from paying any dividend or distributing any surplus directly or indirectly to Auckland Council.</i>	Yes	100	100

### Implementation of new and amended standards

#### Early adoption of PBE IFRS 9 *Financial instruments*

The group has early adopted all of the requirements of PBE IFRS 9 *Financial instruments* (PBE IFRS 9) as of 1 July 2018. PBE IFRS 9 supersedes part of PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* (PBE IPSAS 29). PBE IFRS 9 includes three areas of change:

- classification and measurement of financial instruments;
- a single, forward looking, 'expected credit loss' impairment model; and
- substantially reformed approach to hedge accounting.

## Basis of reporting

### Implementation of new and amended standards (continued)

#### Early adoption of PBE IFRS 9 *Financial instruments* (continued)

##### *Classification and measurement of financial instruments*

The group classifies its financial instruments in the following categories:

- at fair value through surplus or deficit (FVTSD);
- at fair value through other comprehensive revenue and expenditure (FVTOCRE); or
- at amortised cost.

The group determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the group's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTSD. For other equity instruments, on the day of acquisition the group can make an irrevocable election (on an instrument-by-instrument basis) to designate them as FVTOCRE.

Financial liabilities are measured at amortised cost, unless they are required to be measured at FVTSD (such as instruments held for trading or derivatives) or the group has opted to measure them at FVTSD.

The group completed a detailed assessment of its financial assets and liabilities as at 1 July 2018. The following table shows the original classification under PBE IPSAS 29 and the new classification under PBE IFRS 9:

Financial assets	Original classification under PBE IPSAS 29	New classification under PBE IFRS 9	Carrying amount (\$million)			
			Group		Auckland Council	
			Original measurement under PBE IPSAS 29	New measurement under PBE IFRS 9	Original measurement under PBE IPSAS 29	New measurement under PBE IFRS 9
Cash and cash equivalents	Amortised cost	Amortised cost	618	618	584	584
Trade and rates receivables	Amortised cost	Amortised cost	260	260	116	116
Related party receivables	Amortised cost	Amortised cost	-	-	63	63
Accrued income	Amortised cost	Amortised cost	96	96	8	8
Other receivables	Amortised cost	Amortised cost	6	6	26	26
Loans to related parties	Amortised cost	Amortised cost	4	4	1,975	1,975
Community loans	Amortised cost	Amortised cost	1	1	1	1
Retrofit Your Home receivables	Amortised cost	Amortised cost	32	32	32	32
Borrower notes	Amortised cost	FVTSD	33	38	33	38
Short term deposits	Amortised cost	Amortised cost	130	130	126	126
Investment in unlisted shares	FVTOCRE	FVTSD	8	8	8	8
Investment in listed equity shares	FVTOCRE	FVTOCRE	43	43	-	-
Credit support annex	Amortised cost	Amortised cost	10	10	10	10
Investment in managed funds	FVTOCRE	FVTSD	11	11	-	-
Derivative assets	FVTSD	FVTSD	289	289	280	280

## Basis of reporting

### Implementation of new and amended standards (continued)

#### Early adoption of PBE IFRS 9 *Financial instruments* (continued)

There was no material impact arising as a result of remeasurement of financial assets that have been classified differently under PBE IFRS 9. The group has elected not to restate the comparatives to comply with PBE IFRS 9. The requirements of PBE IPSAS 29 for classification and measurement of financial liabilities were carried forward in PBE IFRS 9, so the group's accounting policy with respect to financial liabilities is unchanged. However, the comparatives for finance revenue and cost were split to align with current year disclosure due to consequential amendments to PBE IPSAS 1 and PBE IPSAS 30 on adoption of PBE IFRS 9.

The group and the council have assessed which business model applies to the financial assets as at 1 July 2018 and have classified the financial instruments into the appropriate categories in accordance with PBE IFRS 9. The effects are as follows:

Reconciliation of statement of financial position balances from PBE IPSAS 29 to PBE IFRS 9 at 1 July 2018

Group financial assets	(a)	(b)	(c)	(d) = (a)+(b)+(c)
\$million Measurement category	PBE IPSAS 29 carrying amount 30 June 2018	Reclassification	Remeasurements and effect on accumulated funds on 1 July 2018	PBE IFRS 9 carrying amount at 1 July 2018
<b>Fair value through surplus or deficit</b>	289	-	-	289
<i>Reclassified from fair value through other comprehensive revenue and expenditure</i>				
Investment in unlisted shares	-	8	-	8
Investment in managed funds	-	11	-	11
<i>Reclassified from amortised cost</i>				
Borrower notes	-	33	5	38
<b>Total change to fair value through surplus or deficit</b>	<b>289</b>	<b>52</b>	<b>5</b>	<b>346</b>
<b>Fair value through other comprehensive revenue and expenditure</b>	62	-	-	62
Investment in unlisted shares	-	(8)	-	(8)
Investment in managed funds	-	(11)	-	(11)
<b>Total change to fair value through other comprehensive revenue and expenditure</b>	<b>62</b>	<b>(19)</b>	-	<b>43</b>
<b>Amortised cost</b>	1,190	-	-	1,190
Borrower notes	-	(33)	-	(33)
<b>Total change to amortised cost</b>	<b>1,190</b>	<b>(33)</b>	-	<b>1,157</b>
<b>Total financial asset balances, reclassifications and remeasurements at 1 July 2018</b>	<b>1,541</b>	-	<b>5</b>	<b>1,546</b>

## Basis of reporting

### Implementation of new and amended standards (continued)

#### Early adoption of PBE IFRS 9 *Financial instruments* (continued)

Auckland Council financial assets	(a)	(b)	(c)	(d) = (a)+(b)+(c)
\$million Measurement category	PBE IPSAS 29 carrying amount 30 June 2018	Reclassification	Remeasurements and effect on accumulated funds on 1 July 2018	PBE IFRS 9 carrying amount at 1 July 2018
<b>Fair value through surplus or deficit</b>	280	-	-	280
<i>Reclassified from fair value through other comprehensive revenue and expenditure</i>				
Investment in unlisted shares	-	8	-	8
<i>Reclassified from amortised cost</i>				
Borrower notes	-	33	5	38
<b>Total change to fair value through surplus or deficit</b>	<b>280</b>	<b>41</b>	<b>5</b>	<b>326</b>
<b>Fair value through other comprehensive revenue and expenditure</b>	8	-	-	8
Investment in unlisted shares	-	(8)	-	(8)
<b>Total change to fair value through other comprehensive revenue and expenditure</b>	<b>8</b>	<b>(8)</b>	-	-
<b>Amortised cost</b>	2,973	-	-	2,973
Borrower notes	-	(33)	-	(33)
<b>Total change to amortised cost</b>	<b>2,973</b>	<b>(33)</b>	-	<b>2,940</b>
<b>Total financial asset balances, reclassifications and remeasurements at 1 July 2018</b>	<b>3,261</b>	-	5	<b>3,266</b>

#### *New impairment model*

PBE IFRS 9 prescribes an 'expected credit loss' (ECL) model instead of a previous incurred loss model, so it is no longer necessary for a trigger event to have occurred before recognising credit losses. NZ IFRS 9 requires the group to base the measurement of expected credit losses on forward-looking information, as well as current and historic information. The group and the council have applied the simplified approach to all receivables, which requires the recognition of lifetime expected credit losses at all times. The cumulative impact of the change is not material and the balances are not adjusted.

For loans to related parties and financial guarantees, ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL). The financial effects are not material and the balances are not adjusted.

#### *Hedge accounting*

PBE IFRS 9 introduces a new hedge accounting framework with an aggregate exposure concept, being the combination of an exposure and a derivative which, together, can be designated as a hedged item. PBE IFRS 9 also includes a more qualitative and forward-looking approach to assessing hedging effectiveness. There was no financial impact on adoption.

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## Basis of reporting

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### Implementation of new and amended standards (continued)

#### PBE Standards on Interests in Other Entities

The New Zealand Accounting Standards Board (NZASB) has issued the following 5 standards in January 2017 and will be effective for the reporting period beginning 1 January 2019. These standards are collectively referred to as PBE Standards on Interests in Other Entities and comprise:

- PBE IPSAS 34 *Separate Financial Statements*
- PBE IPSAS 35 *Consolidated Financial Statements*
- PBE IPSAS 36 *Investment in Associates and Joint Ventures*
- PBE IPSAS 37 *Joint Arrangements*
- PBE IPSAS 38 *Disclosure of Interests in Other Entities*

The group and the council do not intend to early adopt any of the above standards and have initially concluded that there is unlikely to be a material impact to the financial statements when the standards are initially adopted.

#### Impairment of Revalued Assets (Amendments to PBE IPSAS 21 and 26)

The above-stated amendments were issued in April 2017 and will be effective for the reporting period beginning 1 January 2019. The group and the council do not intend to early adopt the above amendments. The transition to the revised standards is not expected to result in material adjustments to the financial statements for the following year.

All other standards, interpretations and amendments approved but not yet effective in the current year are either not applicable to the group and the council or are not expected to have a material impact on the financial statements of the group and the council and, therefore, have not been disclosed.

## Basis of reporting

### Budget figures

The budget figures presented in the financial statements of the group and the council are those included in the 10-year Budget 2018-2028, as amended in June 2019, and are consistent with the accounting policies used to prepare the financial statements. The amendment followed a decision to transfer the ownership of waterfront assets from Panuku Development Auckland Limited (Panuku), the council's urban development agency, to the council. Panuku has been given new delegations to develop and manage the waterfront assets such that its operations will remain unaffected.

The amendment had no material impact on the group financial statements but did result in changes to the council financial statements. The differences between the council's amended 10-year Budget 2018-2028 and the original 10-year Budget 2018-2028 for the 2018/2019 financial year are:

\$million	Original 10-year Budget	Amended 10-year Budget	Reason for amendment
<b>Statement of comprehensive revenue and expenditure</b>			
Other revenue	239	514	The increase reflects the dividend from Panuku to settle amounts receivable for the transfer of waterfront assets.
<b>Statement of changes in equity</b>			
Surplus after income tax	35	310	The increase reflects the dividend from Panuku as noted above.
<b>Statement of financial position</b>			
Receivables and prepayments	325	334	The increase reflects accrued rental income from the waterfront investment properties transferred.
Property, plant and equipment	15,321	15,663	The increase reflects waterfront assets transferred from Panuku.
Investment property	162	605	The increase reflects waterfront assets transferred from Panuku.
Investments in subsidiaries	21,264	20,787	The decrease reflects the return of equity in Panuku to settle amounts receivable for the transfer of waterfront assets.
Other non-current assets	2	4	The increase reflects the transfer of redeemable preference shares in Downtown Marinas Limited.
Payable and accruals	703	747	The increase reflects the transfer of payables associated with the transferred waterfront assets including revenue in advance, trade payables and accruals, bonds and deposits and lease incentives payable.
Accumulated funds	(478)	(203)	The increase reflects the receipt of the dividend from Panuku as noted above.

There were no amendments to the statement of cash flows as the purchase price of the transferred waterfront assets was settled by way of a reduction in share capital and a dividend from Panuku to the council.



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## Section A: Results of the year

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This section focuses on the performance of the Auckland Council Group and Auckland Council during the year. It provides detail about rates and other revenue, and significant expenditure such as employee benefits, goods and services purchased, depreciation and amortisation, and other costs.

The notes in the section are as follows:

- A1 Revenue
- A2 Operating expenses
- A3 Employee benefits
- A4 Depreciation and amortisation
- A5 Finance costs
- A6 Net other gains and losses
- A7 Income tax

## Section A: Results of the year

### A1 Revenue

#### Accounting policy



The Auckland Council Group (the group) and Auckland Council (the council) receive their revenue from exchange or non-exchange transactions. Exchange transaction revenue arises when the group and the council directly provide goods or services to a third party and receive approximately equal value in return. Non-exchange transaction revenue arises when the group and the council receive value from another party without having to directly provide goods or services of equal value. Non-exchange revenue comprises rates and transfer revenue. Transfer revenue includes grants, subsidies and fees and user charges derived from activities that are partially funded by rates. Revenue is measured at fair value which is usually the cash value of a transaction.

Type	Recognition and measurement
<b>Rates</b>	In full at point of issuance of the ratings notice and measured at the amount assessed, which is the fair value of the cash received or receivable.
<b>Grants and subsidies</b>	When they become receivable unless there is an obligation in substance to return the funds if conditions of the grants and subsidies are not met. If there is such an obligation, the grants and subsidies are initially recorded in the statement of financial position at fair value as grants and subsidies received in advance and recognised as revenue when conditions of the grant and subsidies are satisfied.
<b>Development contributions</b>	When the council is capable of providing the service for which the contribution was levied.
<b>Financial contributions</b>	When they are expended on the activity for which the contribution was levied.
<b>Vested assets<sup>1</sup></b>	When control of the asset is transferred to the group and the council at its fair value.
<b>Fines and infringements</b>	When the infringement notice is issued.
<b>Finance revenue<sup>2</sup></b>	Using the effective interest method.
<b>Dividend revenue</b>	When the group and the council's right to receive the dividend is established.
<b>Fees and user charges</b>	
Water and wastewater	When invoiced or accrued in the case of unbilled services at fair value of cash received or receivable.
Sale of goods	When the substantial risks and rewards of ownership have been passed to the buyer.
Sale of services	On a percentage of completion basis over the period of the service supplied.
Port operations	In the period the services are rendered, by reference to the percentage of completion of the specific transaction.
Consents	By reference to the percentage of completion of the transaction at balance date based on the actual service rendered.
Licences and permits	On receipt of application as these are non-refundable.
<b>Other revenue</b>	
Regional fuel tax	At the point when supply of fuel occurs in the Auckland region.

<sup>1</sup> Arise when property developers undertake development which requires them to build infrastructure in the development area. When the development is complete these are vested to the group and the council.

<sup>2</sup> Includes interest revenue and realised gains from the early close-out of derivatives.

## Section A: Results of the year

### A1 Revenue (continued)

The split of exchange and non-exchange revenue is disclosed below.

\$million	Group		Auckland Council	
	2019	2018	2019	2018
<b>Revenue from non-exchange transactions:</b>				
<b>Revenue from rates</b>				
General	1,570	1,505	1,583	1,515
Targeted	208	193	208	193
Penalties	18	18	18	18
Rates remissions	(5)	(7)	(5)	(7)
Discounts	(1)	(2)	(2)	(1)
<b>Total revenue from rates</b>	<b>1,790</b>	<b>1,707</b>	<b>1,802</b>	<b>1,718</b>
<b>Revenue from transfers</b>				
Sales of goods and services	355	287	91	88
Vested assets	486	572	119	226
Fines and infringements	47	36	4	4
Consents, licences and permits	195	177	192	176
Capital grants and subsidies	304	211	39	4
Operating grants and subsidies	308	286	21	18
Regional fuel tax revenue	156	-	156	-
Other transfer revenue	100	102	37	43
<b>Total revenue from transfers</b>	<b>1,951</b>	<b>1,671</b>	<b>659</b>	<b>559</b>
<b>Total revenue from non-exchange transactions</b>	<b>3,741</b>	<b>3,378</b>	<b>2,461</b>	<b>2,277</b>
<b>Revenue from exchange transactions:</b>				
Water and wastewater	504	479	-	-
Sales of goods and services	2	50	-	-
Port operations	230	232	-	-
Development and financial contributions	178	182	178	182
Finance revenue	16	37	123	107
Dividends received	4	2	343	109
Infrastructure growth charges	104	89	-	-
Other exchange revenue	100	94	29	28
<b>Total revenue from exchange transactions</b>	<b>1,138</b>	<b>1,165</b>	<b>673</b>	<b>426</b>
<b>Total revenue</b>	<b>4,879</b>	<b>4,543</b>	<b>3,134</b>	<b>2,703</b>

The annual rates revenue of the council for the year ended 30 June 2019 for the purposes of the Local Government Funding Agency Limited (LGFA) Guarantee and Indemnity Deed disclosure is \$1.8 billion (2018: \$1.7 billion). Refer to Note F4 for further information on the LGFA guarantees and indemnities.

Refer to Note F7 for further information on Regional Fuel Tax revenue and its utilisation during the year.



#### Local government disclosures

The council's rating base information relating to the preceding financial year as at 30 June 2018 is as follows:

	2018
Number of rating units	559,716
Total capital value of rating units (in \$million)	719,093
Total land value of rating units (in \$million)	490,042

## Section A: Results of the year

### A1 Revenue (continued)



#### Explanation of significant variances against budget

2019 \$million	Group		Auckland Council	
	Actual	Budget	Actual	Budget
Total revenue	4,879	4,763	3,134	3,089

#### Group

Revenue is higher than budget by \$116 million in the following areas:

- The group receives vested assets from property developers such as roading, water connections and parks when new subdivisions are constructed. During the year, the group received \$202 million more assets than budgeted from developments in Papakura, Long Bay, Huapai, Red Beach, Ardmore, Flat Bush, Hobsonville and Ōtāhuhu;
- Watercare receives infrastructure growth charges to cover capital investment in bulk infrastructure used to provide services to either new or existing customers who increase their demand for water services. Infrastructure growth charges were \$14 million higher than budget as a result of the high level of development in Auckland;
- As part of Auckland Transport's safety campaign, new traffic cameras were installed on Queen Street, Khyber Pass and Hobson Street. A higher number of infringement notices were issued than expected resulting in infringement revenue being \$10 million more than planned;
- Revenue received for resource consents was \$8 million higher than planned because of increases in the volume and complexities of consents as the density of the city increases, with more high rises than ever before. In addition, there was a clearing of prior year backlogs that had resulted from resourcing constraints; and
- Auckland Regional Fuel Tax was introduced on 1 July 2018. The tax raised \$6 million more in revenue than was budgeted.

The above favourable results are partly offset by the following items which were lower than budget:

- Grants and subsidies revenue was \$87 million lower than budget due to lower than planned capital grants being received from the New Zealand Transport Agency as the required milestones had not been met by Auckland Transport in order to obtain the budgeted funding;
- Development contributions were \$27 million lower than budgeted due to the growth in new developments being lower than expected, as well as the implementation of a new development contributions policy being delayed;
- Revenue from port operations was \$15 million below budget. This was as a result of temporary operational constraints while Ports of Auckland was undertaking its straddle carrier automation project coupled with the reduced volumes due to services being withdrawn from the market following a consolidation of shipping lines; and
- Entrance fees and venue hire were \$11 million below budget. The construction of the South East Asia Precinct and new café at Auckland Zoo had a negative impact on visitor experience and perception of value at the zoo which resulted in poor patronage. There were also a number of postponed events at various stadia.

#### Auckland Council

Revenue is higher than budget by \$45 million. The following are the largest contributors to this surplus:

- A number of new housing developments in areas such as Kumeū, Huapai, Orewa, Swanson and Whitford have resulted in vested infrastructure assets being \$35 million in excess of budget;
- Dividend income from Panuku to settle amounts receivable for the transfer of waterfront assets was \$20 million higher than budget;
- We run a scheme that provides housing for older people called Own-your-own (OYO) unit where units are sold at a discount to the market value. The revenue from the sale of units is not budgeted for due to uncertainty around when units become available for sale. \$4 million of unbudgeted sales revenue arose during the year;

## Section A: Results of the year

### A1 Revenue (continued)



#### Explanation of significant variances against budget (continued)

##### Auckland Council (continued)

- Rental income exceeded budget by \$9 million. The biggest increases were in commercial rents and rents from Haumaru Housing joint venture (Haumaru). \$3 million relates to increases in commercial rents, being new rents of newly purchased properties and lease renewals in excess of budgeted amounts. \$4 million relates to Haumaru which provides affordable rental housing for older people. The joint venture is systematically refurbishing their residential villages, and this has resulted in rental income exceeding budget;
- Resource consents revenue was \$8 million higher than planned as mentioned above; and
- As mentioned above, Auckland Regional Fuel Tax was introduced on 1 July 2018. The tax raised \$6 million more in revenue than was budgeted.

The above favourable results are partially offset by the following items:

- Development contributions were \$27 million lower than planned due to the growth in new developments being lower than expected, as well as the implementation of a new development contributions policy being delayed;
- Capital grants from the Ministry of Business, Innovation and Employment for the construction of infrastructure to co-fund the America's Cup 36 infrastructure were \$17 million behind budget due to construction delays; and
- The council extended a lower amount of borrowings to Watercare than expected, which resulted in a lower amount of finance revenue than planned.

### A2 Operating expenses

#### Accounting policy



##### Grants and subsidies

Discretionary grants and subsidies are recognised as expenses when the group and the council have advised their decision to pay and when the attached conditions, if any, are satisfied. Non-discretionary grants are recognised as expenses on receipt of an application that meets the specified criteria.

Operating expenses include:

\$million	Group		Auckland Council	
	2019	2018	2019	2018
Grants, contributions and sponsorship:				
Funding to CCOs	-	-	905	911
Other grants	144	133	130	119
	144	133	1,035	1,030
Goods and services	768	723	226	191
Consultancy and professional services	135	140	51	59
Repairs and maintenance	288	263	139	127
Utilities and occupancy	71	75	33	36
Rental and lease	133	81	32	24
Net impairment of receivables	2	5	(3)	3
Fees paid to elected members	11	10	11	10
Fees paid to auditors	4	5	2	2

## Section A: Results of the year

### A2 Operating expenses (continued)



#### Local government disclosures

##### Other financial contributions (presented under 'Grant, contributions and sponsorship')

Under the Auckland War Memorial Museum Act 1996, Museum of Transport and Technology Act 2000 and Auckland Regional Amenities Funding Act 2008, the council is required to disclose information about its financial contributions to the following entities.

\$million	Auckland Council	
	2019	2018
Auckland War Memorial Museum	32	31
MOTAT	14	15
Auckland Regional Amenities Funding Board	15	16



#### Explanation of significant variances against budget

2019 \$million	Group		Auckland Council	
	Actual	Budget	Actual	Budget
Other operating expenses	1,633	1,540	631	530

#### Group

Other operating expenses are higher than budget by \$93 million. A number of items contributed to this:

- Due to inherent uncertainty around the provision for remediation of weathertightness claims, as well as management and remediation of contaminated and closed landfills, these costs are not budgeted for. Both had significant increases during the year. The provision for remediation of weathertightness claims expense exceeded budget by \$49 million as a result of the high costs associated with multi-unit claims. The provision for remediation of contaminated land and closed landfills provision increased by \$20 million due to cost escalations particularly in relation to the landslide at Rawene Reserve, Birkenhead, which unearthed a closed landfill;
- Repairs and maintenance costs were \$15 million higher than planned. There were several reasons for this including the unplanned maintenance on the water networks and Mangere Wastewater Treatment Plant, unbudgeted sports fields renovations and maintenance, and maintenance on assets transferred from developers in excess of what was planned;
- Waste solutions costs exceeded budget by \$8 million. This was driven by increases in the cost of recycling as China stopped accepting plastics for recycling. It also resulted from unanticipated growth in waste and recycling, and costs of projects such as food waste collection, illegal dumping collection and inorganic waste recycling; and
- As the city grows in size and density, the demands on the resource and building consents teams are changing. More time is being spend on increasingly complex consents. As well driving an increase in consenting revenue, this has resulted in increased spend on outsourcing as there is a skills shortage in the complex consenting area. This resulted in a spend in excess of budget of \$10 million, which was offset by additional consenting revenue.

The remaining net favourable variances against budget are individually insignificant.

## Section A: Results of the year

### A2 Operating expenses (continued)



#### Explanation of significant variances against budget (continued)

##### **Auckland Council**

Other operating expenses are higher than budget by \$101 million. A number of items contributed to this:

- As mentioned above, the provision for remediation of weathertightness claims increased by \$49 million and the contaminated land and closed landfills provision increased by \$19 million;
- Rental and lease expenses exceeded budget by \$10 million, partly due to the provision for an onerous lease in our Takapuna office, and also due to rental compensation paid to Regional Facilities Auckland for the use of Viaduct Event Centre by Emirates Team New Zealand in preparation for America's Cup 36;
- Waste solutions costs exceeded budget by \$8 million as mentioned above;
- As mentioned above, spend on outsourcing resulted in a \$10 million overspend;
- The council continues to extend its digital footprint, to engage Aucklanders and provide a digital platform for our customers to interact and transact with us over the web and mobile. During the year we had engaged external service providers and consultants to enable core digital platform delivery and invested heavily in securing our technology infrastructure to safeguard against the rising digital threats, which were not foreseen and budgeted. As a result of these investments outsourced works exceeds budget by \$4 million; and
- We run a scheme that provides housing for older people called Own-your-own (OYO) unit where units are sold at a discount to the market value. The cost of units sold is not budgeted for due to uncertainty around when units become available for sale. \$4 million of unbudgeted costs of sale arose during the year, which was offset against \$4 million of unbudgeted sales revenue.

The remaining net favourable variances against budget are individually insignificant.

##### **Fees paid to auditors**

The following fees were charged for the services provided by the auditors of the group and the council:

\$thousand	Group		Auckland Council	
	2019	2018	2019	2018
<b>Audit of financial statements</b>	<b>3,310</b>	<b>3,391</b>	<b>1,213</b>	<b>1,190</b>
<b>Other assurance-related services:</b>				
Review of interim financial statements	302	313	119	117
Agreed upon procedures on foreign borrowings	43	43	43	43
Debenture Trust Deed services	16	16	16	16
<b>Required by legislation:</b>				
Review of service performance	58	16	58	16
2018/2028 Long-term Plan	111	685	111	685
	<b>530</b>	<b>1,073</b>	<b>347</b>	<b>877</b>
<b>Other services:</b>				
Cyber/cloud security	170	347	-	-
Central interceptor probity/evaluation	100	91	-	-
Enterprise model probity	110	-	-	-
Assurance review	70	-	-	-
Other*	60	28	-	-
	<b>510</b>	<b>466</b>	<b>-</b>	<b>-</b>
<b>Total fees to auditors</b>	<b>4,350</b>	<b>4,930</b>	<b>1,560</b>	<b>2,067</b>

\* Other includes corporate tax group membership fee, Relativity software and other application support.

## Section A: Results of the year

### A3 Employee benefits

#### Accounting policy



Employee entitlements for salaries and wages, annual leave, long service leave and other similar benefits are recognised as expenditure and liabilities when they accrue to employees.

\$million	Group		Auckland Council	
	2019	2018	2019	2018
Salaries and wages	834	794	499	471
Contributions to defined contribution schemes	25	23	13	13
Termination benefits	6	7	2	4
Other	46	42	18	12
<b>Total employee benefits</b>	<b>911</b>	<b>866</b>	<b>532</b>	<b>500</b>

Refer to Note D4 for the employee entitlement liability as at 30 June 2019 and 30 June 2018 and Note F5 for further information on the remuneration of key management personnel and elected representatives.



#### Explanation of significant variances against budget

2019 \$million	Group		Auckland Council	
	Actual	Budget	Actual	Budget
Employee benefits	911	905	532	536

#### Group

Employee benefits are higher than budgeted by \$6 million because:

- Less annual leave was taken by employees during the year than was anticipated in the budget; and
- There was an increased spend on temporary staff and overtime to cover the workload from unfilled vacancies in specialist areas;

#### Auckland Council

Employee benefits are lower than budgeted by \$4 million mainly due to vacancies being filled later than anticipated due to external labour market conditions creating recruitment challenges in areas that require specialist skills.

### A4 Depreciation and amortisation

#### Accounting policy



Depreciation is provided on all property, plant and equipment except for land, works of art and specified cultural heritage assets. Depreciation is calculated to write down the cost or revalued amount of the assets on a straight-line basis over their useful economic lives (Note B1).

Amortisation is provided on intangible assets, except rights to acquire, and is calculated to write down the cost of the assets on a straight-line basis over their useful economic lives (Note B2).



## Section A: Results of the year

### A4 Depreciation and amortisation (continued)



#### Local government disclosures

Under the Local Government (Financial Reporting and Prudence) Regulations 2014, the council is required to disclose the group's depreciation and amortisation by group of activities.

\$million	Group	
	2019	2018
<b>Group of activity</b>		
Roads and footpaths	241	230
Public transport and travel demand management	101	95
Water supply	112	100
Wastewater	133	119
Stormwater	56	56
Local council services	2	2
Regionally delivered council services	233	225
Council controlled services	44	38
<b>Total depreciation and amortisation (Notes B1 and B2)</b>	<b>922</b>	<b>865</b>



#### Explanation of significant variances against budget

2019 \$million	Group		Auckland Council	
	Actual	Budget	Actual	Budget
Depreciation and amortisation	922	954	268	276

#### Group

The favourable variance of \$32 million to budget is primarily due to the delayed delivery of capital projects across the group.

### A5 Finance costs

#### Accounting policy



Finance costs include interest expense, the unwinding of discounts on provisions and financial assets, net realised losses on the early close-out of derivatives and costs directly incurred in managing funding. Interest expense is recognised using the effective interest method. Included in interest expense is interest on drawn debt and interest rate swaps, the amortisation of borrowing costs and finance charges in respect of finance leases.

\$million	Group		Auckland Council	
	2019	2018	2019	2018
Interest expense measured using effective interest method	247	262	227	244
Other interest expense	207	192	203	147
Interest expense on provisions due to change in discount rate (refer Note D5)	16	5	15	5
Interest expense on provisions due to discount unwind (refer Note D5)	4	11	4	11
Other finance costs	4	2	4	1
<b>Total finance costs</b>	<b>478</b>	<b>472</b>	<b>453</b>	<b>408</b>

Refer to Note E1 for information about interest rate risk and interest rate risk management.

## Section A: Results of the year

### A5 Finance costs (continued)



#### Explanation of significant variances against budget

2019 \$million	Group		Auckland Council	
	Actual	Budget	Actual	Budget
Finance costs	478	474	453	456

#### Group

Finance costs were unfavourable to budget by \$4 million primarily due to \$10 million higher than budgeted time value of money adjustments on long term provisions. The significant decline in long term interest rates during the year resulted in an unbudgeted increase in the time value adjustment applied to long term provisions such as the provision for remediation of weathertightness claims and contaminated land and closed landfills. This was partly offset by interest on borrowings which was \$13 million favourable to budget. This was because the group borrowed less than budgeted during the year due to delays in capital investment.

#### Auckland Council

Finance costs were favourable to budget for the reasons mentioned above, however, the increase in time value adjustments was less unfavourable than for the group, and interest on borrowings were more favourable than the group.

### A6 Net other gains and losses

\$million	Group		Auckland Council	
	2019	2018	2019	2018
Net gains/(losses) on change in fair value of derivative financial instruments:				
Net gains/(losses) attributable to foreign exchange movements	(65)	227	(59)	227
Net losses attributable to interest rate movements	(654)	(207)	(654)	(184)
	(719)	20	(713)	43
Net increase in fair value of investment property	15	24	7	9
Net increase/(decrease) in financial instruments designated at fair value through surplus/(deficit)	(4)	5	50	5
Net foreign exchange gains/(losses) recognised in surplus/(deficit) on financial instruments held at amortised cost	60	(227)	59	(227)
Reversal of previous impairment/(Impairment) of property, plant and equipment and intangible assets	(4)	12	(1)	(1)
Net gains/(losses) on disposal of property, plant and equipment and intangible assets	(1)	43	13	54
Net loss on disposal of other assets	(2)	-	-	-
Gain on business combination	4	11	-	-
<b>Total net other gains/(losses)</b>	<b>(651)</b>	<b>(112)</b>	<b>(585)</b>	<b>(117)</b>

## Section A: Results of the year

### A6 Net other gains and losses (continued)



#### Explanation of significant variances against budget

2019 \$million	Group		Auckland Council	
	Actual	Budget	Actual	Budget
Net other losses	(651)	-	(585)	-

Net other gains and losses for the group (\$651 million) and for the council (\$585 million) are not budgeted for. These losses mainly relate to movements in the value of derivative financial instruments which are used to hedge against interest rate and foreign exchange movements on borrowings. The group utilises foreign exchange hedges to lock in foreign currency rates on our foreign currency denominated borrowings. The group also utilises interest rate hedging contracts to fix interest costs on floating rate debt. This increases certainty over future interest costs, which enables the group to execute its planned expenditure programmes with confidence. Hedging contracts are generally held to maturity. Accounting standards require hedging contracts to be recognised at their fair value at balance date. The historically low interest rates in New Zealand have caused a \$654 million loss to arise in this reporting year on the change in the fair value of our interest rate hedging contracts. This unrealised loss on hedging contracts has occurred mainly because the fixed interest rate in the hedging contracts are higher than market interest rates at balance date. Since balance date market interest rates have reduced further.

This loss is partly offset for both the group and the council by net gains on disposal of property, plant and equipment and an increase in fair value of financial instruments designated at fair value through surplus or deficit.

### A7 Income tax

#### Accounting policy



The council and some council-controlled organisations are exempt from income tax under the Income Tax Act 2007, except for certain income received from council-controlled organisations and port-related commercial undertakings.

Income tax comprises current tax and deferred tax calculated using the tax rate that has been enacted or substantively enacted by the balance date. Income tax is charged or credited to the surplus or deficit, except when it relates to items that are recognised in other comprehensive revenue and expenditure or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive revenue and expenditure or directly in equity.

Current tax is the amount of income tax payable or refundable in the current period, plus any adjustments to income tax payable in respect of prior periods. Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Refer to Note F2 for information on deferred tax assets and liabilities.

Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that affects neither accounting profit nor taxable profit.

## Section A: Results of the year

### A7 Income tax (continued)

\$million	Group		Auckland Council	
	2019	2018	2019	2018
<b>Components of income tax expense</b>				
Current tax	-	-	-	-
Deferred tax	58	34	-	-
<b>Total income tax expense</b>	<b>58</b>	<b>34</b>	<b>-</b>	<b>-</b>
<b>Relationship between income tax and accounting surplus/(deficit)</b>				
Net surplus/(deficit) before tax	238	694	(275)	(224)
Surplus/(deficit) from non-taxable activities	(422)	(485)	275	224
<b>Taxable surplus/(loss)</b>	<b>(184)</b>	<b>209</b>	<b>-</b>	<b>-</b>
Prima facie income tax at 28% (2018: 28%)	(52)	59	-	-
Prior period adjustment	1	3	-	-
Tax effect of permanent differences	86	42	-	-
Associates' income net of tax	(1)	(41)	-	-
Loss offset net of group losses utilised	4	4	-	-
De-recognition of deferred tax assets	2	1	-	-
Tax credits	(1)	(23)	-	-
Timing differences	1	(1)	-	-
Reversal of tax liability for prior year tax loss offsets	(8)	(7)	-	-
Other adjustments	26	(3)	-	-
<b>Total income tax expense</b>	<b>58</b>	<b>34</b>	<b>-</b>	<b>-</b>

#### Imputation credit

\$million	Group		Auckland Council	
	2019	2018	2019	2018
Imputation credits available for use in subsequent reporting periods	56	55	-	-

All of the group's significant subsidiaries with the exception of Regional Facilities Auckland and Watercare Services Limited, are in an income tax group. Imputation credits available for use by any member of the income tax group are \$25 million (2018: \$24 million).

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## Section B: Long-term assets

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This section provides information about the investments the Auckland Council Group and Auckland Council have made in long-term assets to provide services and facilities to the people of Auckland. The long-term assets include physical assets such as infrastructure, land and buildings, parks and reserves and non-physical assets such as computer software.

The notes in this section are as follows:

- B1 Property, plant and equipment
- B2 Intangible assets
- B3 Investment property

## Section B: Long-term assets

### B1 Property, plant and equipment



#### Accounting policy

The property, plant and equipment of the Auckland Council Group (the group) and Auckland Council (the council) are classified into three categories:

- **Infrastructure assets** include land under roads and systems and networks integral to the city's infrastructure. These assets are intended to be maintained indefinitely, even if individual assets or components are replaced or upgraded.
- **Operational assets** include property, plant and equipment used to provide core council services, either as a community service, for administration, or as a business activity. Other operational assets include landfills, motor vehicles, office equipment, library books and furniture and fittings.
- **Restricted assets** include property and improvements where the use or transfer of title outside of the group or the council is legally restricted.

#### Initial recognition and subsequent measurement

Property, plant and equipment is initially recognised at cost, unless acquired through a non-exchange transaction, in which case the asset is recognised at fair value at the date of acquisition. Subsequent costs that extend or expand the asset's future economic benefits and service potential are capitalised. After initial recognition, certain classes of property, plant and equipment are revalued. Work in progress is recognised at cost less impairment, if any, and is not depreciated.

#### Useful lives

The useful lives used to calculate the depreciation of property, plant and equipment are as follows:

Asset class	Estimated useful life (years)	Asset class	Estimated useful life (years)
<b>Infrastructure</b>		<b>Operational (continued)</b>	
Land and road formation	Indefinite	Marina structures	1 to 100
Roads	8 to 100	Rolling stock	3 to 35
Water and wastewater	3 to 200	Wharves	4 to 100
Machinery	3 to 200	Works of art	Indefinite
Storm water	10 to 200	Other operational assets	1 to 100
Other infrastructure	10 to 120	<b>Restricted</b>	
<b>Operational</b>		Parks and reserves	Indefinite
Land	Indefinite	Buildings	5 to 100
Buildings	1 to 100	Improvements	3 to 100
Train stations	6 to 60	Specified and cultural	
Bus stations and shelters	10 to 40	heritage assets	Indefinite

#### Disposals

Gains and losses on the disposal of property, plant and equipment are recognised in surplus or deficit. Any amounts included in the asset revaluation reserve in respect of the disposed assets are transferred to accumulated funds on disposal.

#### Impairment

Property, plant and equipment that is measured at fair value, is not required to be tested for impairment. All other property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in surplus or deficit for the amount by which the carrying amount of property, plant and equipment exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Assets are considered cash generating if their primary objective is to provide a commercial return. The value in use for cash-generating assets is the present value of expected future cash flows.

For non-cash generating assets, value in use is determined using an approach based on a depreciated replacement cost.

## Section B: Long-term assets

### B1 Property, plant and equipment (continued)

Group 2019 \$million	Opening balance			Current year	Closing balance		
	Cost/ valuation	Accumulated depreciation and impairment	Carrying amount	Current year movements*	Cost/ valuation	Accumulated depreciation and impairment	Carrying amount
<b>Infrastructure</b>							
Roads and formation	10,156	(234)	9,922	153	10,545	(470)	10,075
Water and wastewater	7,857	-	7,857	2	8,027	(168)	7,859
Machinery	1,137	(8)	1,129	6	1,203	(68)	1,135
Storm water	4,504	-	4,504	77	4,630	(49)	4,581
Land	6,754	-	6,754	315	7,069	-	7,069
Work in progress	886	-	886	296	1,182	-	1,182
Other	-	-	-	5	5	-	5
	<b>31,294</b>	<b>(242)</b>	<b>31,052</b>	<b>854</b>	<b>32,661</b>	<b>(755)</b>	<b>31,906</b>
<b>Operational</b>							
Land and buildings	5,931	(14)	5,917	158	6,173	(98)	6,075
Train stations	593	(26)	567	(7)	612	(52)	560
Bus stations and shelters	132	(4)	128	8	144	(8)	136
Marina structures	85	(5)	80	44	124	-	124
Rolling stock	435	-	435	(16)	435	(16)	419
Wharves	467	(4)	463	(11)	467	(15)	452
Works of art	326	-	326	1	329	(2)	327
Work in progress	298	-	298	184	482	-	482
Other	1,207	(574)	633	47	1,333	(653)	680
	<b>9,474</b>	<b>(627)</b>	<b>8,847</b>	<b>408</b>	<b>10,099</b>	<b>(844)</b>	<b>9,255</b>
<b>Restricted</b>							
Parks, reserves and buildings	5,600	-	5,600	95	5,699	(4)	5,695
Improvements	1,259	(341)	918	88	1,408	(402)	1,006
Specified cultural and heritage	150	-	150	-	150	-	150
Work in progress	163	-	163	21	184	-	184
	<b>7,172</b>	<b>(341)</b>	<b>6,831</b>	<b>204</b>	<b>7,441</b>	<b>(406)</b>	<b>7,035</b>
<b>Total Group</b>	<b>47,940</b>	<b>(1,210)</b>	<b>46,730</b>	<b>1,466</b>	<b>50,201</b>	<b>(2,005)</b>	<b>48,196</b>

\*Refer to next page for further details.

## Section B: Long-term assets

### B1 Property, plant and equipment (continued)

Group 2019 \$million	Current year movements							Total
	Transfers from capital work in progress	Additions	Depreciation (Note A4)	Impairment	Disposals	Transfers*	Revaluations, net of accumulated depreciation	
<b>Infrastructure</b>								
Roads and formation	383	-	(236)	-	-	6	-	153
Water and wastewater	174	-	(169)	-	(9)	6	-	2
Machinery	71	-	(61)	-	(2)	(2)	-	6
Storm water	131	-	(49)	-	(1)	(4)	-	77
Land	314	-	-	-	(2)	3	-	315
Work in progress	(1,082)	1,378	-	-	-	-	-	296
Other	9	-	-	-	-	(4)	-	5
	-	1,378	(515)	-	(14)	5	-	854
<b>Operational</b>								
Land and buildings	226	-	(91)	(2)	(55)	80	-	158
Train stations	18	-	(25)	-	-	-	-	(7)
Bus stations and shelters	11	-	(3)	-	-	-	-	8
Marina structures	4	-	(1)	-	-	-	41	44
Rolling stock	-	-	(16)	-	-	-	-	(16)
Wharves	9	-	(12)	-	(8)	-	-	(11)
Works of art	3	-	(3)	-	-	-	1	1
Work in progress	(457)	641	-	-	-	-	-	184
Other	186	4	(97)	-	(3)	(43)	-	47
	-	645	(248)	(2)	(66)	37	42	408
<b>Restricted</b>								
Parks, reserves and buildings	105	-	(4)	(2)	-	(4)	-	95
Improvements	102	-	(60)	-	-	46	-	88
Specified cultural and heritage	-	-	-	-	-	-	-	-
Work in progress	(207)	228	-	-	-	-	-	21
	-	228	(64)	(2)	-	42	-	204
<b>Total Group</b>	-	2,251	(827)	(4)	(80)	84	42	1,466

\*Includes transfers between asset classes within property, plant and equipment, as well as between property, plant and equipment, intangible assets, investment property and assets held-for-sale.



## Section B: Long-term assets

### B1 Property, plant and equipment (continued)

Group 2018 \$million	Opening balance			Current year	Closing balance		
	Cost/ valuation	Accumulated depreciation and impairment	Carrying amount	Current year movements*	Cost/ valuation	Accumulated depreciation and impairment	Carrying amount
<b>Infrastructure</b>							
Roads and formation	9,690	(8)	9,682	240	10,156	(234)	9,922
Water and wastewater	7,278	(310)	6,968	889	7,857	-	7,857
Machinery	1,023	(98)	925	204	1,137	(8)	1,129
Storm water	4,383	(93)	4,290	214	4,504	-	4,504
Land	6,472	-	6,472	282	6,754	-	6,754
Work in progress	865	-	865	21	886	-	886
Other	5	-	5	(5)	-	-	-
	<b>29,716</b>	<b>(509)</b>	<b>29,207</b>	<b>1,845</b>	<b>31,294</b>	<b>(242)</b>	<b>31,052</b>
<b>Operational</b>							
Land and buildings	5,254	(94)	5,160	757	5,931	(14)	5,917
Train stations	579	-	579	(12)	593	(26)	567
Bus stations and shelters	80	-	80	48	132	(4)	128
Marina structures	65	(2)	63	17	85	(5)	80
Rolling stock	490	(54)	436	(1)	435	-	435
Wharves	425	(18)	407	56	467	(4)	463
Works of art	293	(1)	292	34	326	-	326
Work in progress	434	-	434	(136)	298	-	298
Other	1,019	(487)	532	101	1,207	(574)	633
	<b>8,639</b>	<b>(656)</b>	<b>7,983</b>	<b>864</b>	<b>9,474</b>	<b>(627)</b>	<b>8,847</b>
<b>Restricted</b>							
Parks, reserves and buildings	5,030	(3)	5,027	573	5,600	-	5,600
Improvements	1,183	(282)	901	17	1,259	(341)	918
Specified cultural and heritage	150	-	150	-	150	-	150
Work in progress	93	-	93	70	163	-	163
	<b>6,456</b>	<b>(285)</b>	<b>6,171</b>	<b>660</b>	<b>7,172</b>	<b>(341)</b>	<b>6,831</b>
<b>Total Group</b>	<b>44,811</b>	<b>(1,450)</b>	<b>43,361</b>	<b>3,369</b>	<b>47,940</b>	<b>(1,210)</b>	<b>46,730</b>

\*Refer to next page for further details.

## Section B: Long-term assets

### B1 Property, plant and equipment (continued)

Group 2018 \$million	Current year movements							Total
	Transfers from capital work in progress	Additions	Depreciation (Note A4)	Impairment	Disposals	Transfers*	Revaluations, net of accumulated depreciation	
<b>Infrastructure</b>								
Roads and formation	461	-	(226)	-	-	5	-	240
Water and wastewater	126	-	(149)	-	(9)	-	921	889
Machinery	233	-	(51)	-	(2)	(1)	25	204
Storm water	173	-	(49)	-	(1)	-	91	214
Land	296	-	-	-	(2)	(12)	-	282
Work in progress	(1,293)	1,314	-	-	-	-	-	21
Other	4	-	-	-	-	(9)	-	(5)
	-	1,314	(475)	-	(14)	(17)	1,037	1,845
<b>Operational</b>								
Land and buildings	150	-	(86)	(1)	(102)	(37)	833	757
Train stations	14	-	(26)	-	-	-	-	(12)
Bus stations and shelters	52	-	(4)	-	-	-	-	48
Marina structures	-	-	(2)	-	-	19	-	17
Rolling stock	1	-	(15)	-	-	-	13	(1)
Wharves	19	-	(10)	-	-	8	39	56
Works of art	4	-	-	-	-	4	26	34
Work in progress	(425)	439	-	-	(150)	-	-	(136)
Other	185	-	(96)	-	4	8	-	101
	-	439	(239)	(1)	(248)	2	911	864
<b>Restricted</b>								
Parks, reserves and buildings	171	-	(3)	(1)	(2)	(15)	423	573
Improvements	73	-	(59)	-	-	3	-	17
Specified cultural and heritage	-	-	-	-	-	-	-	-
Work in progress	(244)	314	-	-	-	-	-	70
	-	314	(62)	(1)	(2)	(12)	423	660
<b>Total Group</b>	-	2,067	(776)	(2)	(264)	(27)	2,371	3,369

\*Includes transfers between asset classes within property, plant and equipment, as well as between property, plant and equipment, intangible assets, investment property and assets held-for-sale.

## Section B: Long-term assets

### B1 Property, plant and equipment (continued)

Auckland Council 2019 \$million	Opening balance			Current year	Closing balance		
	Cost/ valuation	Accumulated depreciation and impairment	Carrying amount	Current year movements*	Cost/ valuation	Accumulated depreciation and impairment	Carrying amount
<b>Infrastructure</b>							
Storm water	4,498	-	4,498	84	4,630	(48)	4,582
Work in progress	96	-	96	32	128	-	128
Other	-	-	-	5	5	-	5
	<b>4,594</b>	<b>-</b>	<b>4,594</b>	<b>121</b>	<b>4,763</b>	<b>(48)</b>	<b>4,715</b>
<b>Operational</b>							
Land and buildings	3,158	(2)	3,156	159	3,370	(55)	3,315
Works of art	40	-	40	(1)	41	(2)	39
Work in progress	136	-	136	145	281	-	281
Other	455	(299)	156	177	672	(339)	333
	<b>3,789</b>	<b>(301)</b>	<b>3,488</b>	<b>480</b>	<b>4,364</b>	<b>(396)</b>	<b>3,968</b>
<b>Restricted</b>							
Parks, reserves and buildings	5,595	-	5,595	101	5,700	(4)	5,696
Improvements	1,258	(340)	918	86	1,405	(401)	1,004
Specified cultural and heritage	150	-	150	-	150	-	150
Work in progress	163	-	163	21	184	-	184
	<b>7,166</b>	<b>(340)</b>	<b>6,826</b>	<b>208</b>	<b>7,439</b>	<b>(405)</b>	<b>7,034</b>
<b>Total Auckland Council</b>	<b>15,549</b>	<b>(641)</b>	<b>14,908</b>	<b>809</b>	<b>16,566</b>	<b>(849)</b>	<b>15,717</b>

\*Refer to next page for further details.

## Section B: Long-term assets

### B1 Property, plant and equipment (continued)

Auckland Council 2019 \$million	Current year movements							Total
	Transfers from capital work in progress	Additions	Depreciation (Note A4)	Impairment	Disposals	Transfers*	Revaluations, net of accumulated depreciation	
<b>Infrastructure</b>								
Storm water	131	1	(48)	-	(1)	1	-	84
Work in progress	(139)	171	-	-	-	-	-	32
Other	8	2	-	-	(8)	3	-	5
	-	174	(48)	-	(9)	4	-	121
<b>Operational</b>								
Land and buildings	100	205	(55)	-	(43)	(48)	-	159
Works of art	1	-	(2)	-	-	-	-	(1)
Work in progress	(133)	278	-	-	-	-	-	145
Other	32	190	(43)	-	(2)	-	-	177
	-	673	(100)	-	(45)	(48)	-	480
<b>Restricted</b>								
Parks, reserves and buildings	105	2	(4)	(2)	-	-	-	101
Improvements	102	45	(61)	-	-	-	-	86
Specified cultural and heritage	-	-	-	-	-	-	-	-
Work in progress	(207)	228	-	-	-	-	-	21
	-	275	(65)	(2)	-	-	-	208
<b>Total Auckland Council</b>	-	1,122	(213)	(2)	(54)	(44)	-	809

\*Includes transfers between asset classes within property, plant and equipment, as well as between property, plant and equipment, intangible assets, investment property and assets held-for-sale.

## Section B: Long-term assets

### B1 Property, plant and equipment (continued)

Auckland Council 2018 \$million	Opening balance			Current year	Closing balance		
	Cost/ valuation	Accumulated depreciation and impairment	Carrying amount	Current year movements*	Cost/ valuation	Accumulated depreciation and impairment	Carrying amount
<b>Infrastructure</b>							
Storm water	4,377	(93)	4,284	214	4,498	-	4,498
Work in progress	101	-	101	(5)	96	-	96
Other	6	-	6	(6)	-	-	-
	<b>4,484</b>	<b>(93)</b>	<b>4,391</b>	<b>203</b>	<b>4,594</b>	<b>-</b>	<b>4,594</b>
<b>Operational</b>							
Land and buildings	2,819	(49)	2,770	386	3,158	(2)	3,156
Works of art	13	-	13	27	40	-	40
Work in progress	170	-	170	(34)	136	-	136
Other	409	(259)	150	6	455	(299)	156
	<b>3,411</b>	<b>(308)</b>	<b>3,103</b>	<b>385</b>	<b>3,789</b>	<b>(301)</b>	<b>3,488</b>
<b>Restricted</b>							
Parks, reserves and buildings	5,024	(3)	5,021	574	5,595	-	5,595
Improvements	1,182	(282)	900	18	1,258	(340)	918
Specified cultural and heritage	151	-	151	(1)	150	-	150
Work in progress	93	-	93	70	163	-	163
	<b>6,450</b>	<b>(285)</b>	<b>6,165</b>	<b>661</b>	<b>7,166</b>	<b>(340)</b>	<b>6,826</b>
<b>Total Auckland Council</b>	<b>14,345</b>	<b>(686)</b>	<b>13,659</b>	<b>1,249</b>	<b>15,549</b>	<b>(641)</b>	<b>14,908</b>

\*Refer to next page for further details.

## Section B: Long-term assets

### B1 Property, plant and equipment (continued)

Auckland Council 2018 \$million	Current year movements						Revaluations, net of accumulated depreciation	Total
	Transfers from capital work in progress	Additions	Depreciation (Note A4)	Impairment	Disposals	Transfers*		
<b>Infrastructure</b>								
Storm water	173	-	(49)	-	(1)	-	91	214
Work in progress	(177)	172	-	-	-	-	-	(5)
Other	4	-	-	-	(11)	1	-	(6)
	-	172	(49)	-	(12)	1	91	203
<b>Operational</b>								
Land and buildings	98	12	(52)	(1)	(29)	(37)	395	386
Works of art	1	-	-	-	-	-	26	27
Work in progress	(142)	108	-	-	-	-	-	(34)
Other	43	7	(44)	-	5	(5)	-	6
	-	127	(96)	(1)	(24)	(42)	421	385
<b>Restricted</b>								
Parks, reserves and buildings	173	4	(3)	(1)	(4)	(17)	422	574
Improvements	73	3	(59)	-	-	1	-	18
Specified cultural and heritage	-	-	-	-	-	(1)	-	(1)
Work in progress	(246)	316	-	-	-	-	-	70
	-	323	(62)	(1)	(4)	(17)	422	661
<b>Total Auckland Council</b>	-	<b>622</b>	<b>(207)</b>	<b>(2)</b>	<b>(40)</b>	<b>(58)</b>	<b>934</b>	<b>1,249</b>

\*Includes transfers between asset classes within property, plant and equipment, as well as between property, plant and equipment, intangible assets, investment property and assets held-for-sale.

## Section B: Long-term assets

### B1 Property, plant and equipment (continued)

#### Work in progress by asset class

\$million	Group		Auckland Council	
	2019	2018	2019	2018
<b>Infrastructure</b>				
Roads and formation	505	384	-	-
Water and wastewater	549	406	-	-
Storm water	119	96	119	96
Other	9	-	9	-
	<b>1,182</b>	<b>886</b>	<b>128</b>	<b>96</b>
<b>Operational</b>				
Land and buildings	353	180	252	97
Train stations	24	41	-	-
Rolling stock	42	1	-	-
Wharves	5	3	-	-
Works of art	5	5	5	5
Other	53	68	24	34
	<b>482</b>	<b>298</b>	<b>281</b>	<b>136</b>
<b>Restricted</b>				
Parks, reserves and buildings	45	61	45	61
Improvements	139	102	139	102
	<b>184</b>	<b>163</b>	<b>184</b>	<b>163</b>
<b>Total</b>	<b>1,848</b>	<b>1,347</b>	<b>593</b>	<b>395</b>

#### Revaluation

##### Accounting policy



Infrastructure assets (except land), restricted assets (except improvements and specified cultural and heritage assets) and operational assets (except other operational assets) are revalued with sufficient regularity, and at least every three years to ensure that their carrying amounts do not differ materially from fair value. The carrying values of revalued assets are assessed annually to ensure that they do not differ materially from the assets' fair values. If there is a material difference, then those asset classes are revalued. Revaluations are accounted for on an asset class basis.

Net revaluation gains are recognised in other comprehensive revenue and expenditure and are accumulated in the asset revaluation reserve in equity for each class of asset. Revaluation losses that result in a debit balance in an asset class's revaluation reserve are recognised in surplus or deficit. Any subsequent gain on revaluation is recognised first in surplus or deficit up to the amount previously expensed and then recognised in other comprehensive revenue and expenditure.

## Section B: Long-term assets

### B1 Property, plant and equipment (continued)



#### Significant judgements and estimates

The method used by the group and the council in revaluing its property, plant and equipment, outlined below, is depreciated replacement cost (DRC), except for operational land and buildings and works of art.

DRC is calculated based on the replacement cost of the property, plant and equipment depreciated over their useful lives. This method takes into account the age and condition of the assets, estimated optimisation rates and estimated remaining useful lives of those assets. The revaluation process involves physical inspection of selected assets at various sites to note aspects such as condition, utilisation, replacement timing and asset optimisation.

It is assumed that all asset classes have no residual value at the end of their useful lives.

Operational land and buildings and works of art are revalued based on available market information relating to these assets.

#### Independent valuer and key assumptions

##### Infrastructure

##### Water and wastewater and machinery

Independent valuer: Beca Projects NZ Limited.

The machinery of the group comprises engines and turbines installed at the water and wastewater pump stations. These are revalued together with the water and wastewater assets. The key assumptions used for both classes:

- Construction costs based on recent contract-based construction work and the unit rates reflect the costs of replacing assets.
- Useful lives of assets are calculated as the lesser of their physical or economic lives.
- The capital goods price index (CGPI) was used where indexation is appropriate. The CGPI rate represents estimated standard replacement costs for asset components in accordance with the modern equivalent asset (MEA) approach. At the time of valuation, the CGPI was available to the March 2018 quarter and an estimate was made for the June 2018 quarter.

##### Stormwater

Independent valuer: AON New Zealand performed a peer-review of in-house valuation.

Key assumptions:

- Unit rates for replacement have been applied to the assets based on size, material, depth, asset sub-type and location.
- Unit rates have been derived from stormwater physical works costs. These are then indexed using Statistics NZ Capital Goods Price Index for civil constructions to convert them to current dollar value.
- Condition information and age have been used to determine remaining useful lives.

##### Roads and formation

Independent valuer: ANA Group Limited.

Key assumptions:

- Unit rates for road construction were based on the most current contracted rates applicable to the Group. Where there is no current contracted unit rate information available, the most recent rates are used indexed for the impact of inflation. The unit rate applied to the pavement depths has changed from 350 millimetres (mm) in 2014 to 600mm in 2017.
- Remaining useful life of the asset considering the age, condition information held on these assets and the asset's future service potential. These assumptions can be affected by local conditions such as ground type, weather patterns and road usage.

##### Operational

##### Land and buildings

Independent valuers: Bayleys Valuation Limited, Beca Projects NZ Limited, Quotable Value Limited, NAI Harcourts NZ and John Foord (Asia) Pte Limited.

Key assumptions:

- Market value based on recent equivalent sales information.
- DRC is used where no market exists for operational buildings with allowance for age, condition and configuration of the building.



## Section B: Long-term assets

### B1 Property, plant and equipment (continued)

<b>Independent valuer and key assumptions (continued)</b>	
<b>Operational (continued)</b>	
Train stations	<p>Independent valuer: Opus International Consultants Limited</p> <p>Key assumptions:</p> <ul style="list-style-type: none"> <li>• Optimised replacement cost to the extent that optimisation can occur in the normal course of business using commercially available technology.</li> <li>• Assets with unlimited engineering lives are adjusted to have a typical useful life of 60 years or less reflecting the rate of change and obsolescence in the environment for each elemental value.</li> </ul>
Bus stations and shelters	<p>Independent valuer: ANA Group Limited</p> <p>Key assumptions:</p> <ul style="list-style-type: none"> <li>• Optimised replacement cost to the extent that optimisation can occur in the normal course of business using commercially available technology.</li> <li>• Remaining useful life of the asset based on the age, condition and the asset's future service potential.</li> </ul>
Marina	<p>Independent valuers: Seagar &amp; Partners Limited</p> <p>Key assumptions:</p> <ul style="list-style-type: none"> <li>• Discounted cash flow calculation using market estimates of the cash flow able to be generated by the asset discounted at a market-based rate of return.</li> </ul>
Rolling stock	<p>Independent valuers: KPMG</p> <p>Key assumptions:</p> <ul style="list-style-type: none"> <li>• Optimised replacement cost to the extent that optimisation can occur in the normal course of business using commercially available technology.</li> <li>• Useful lives based on an expected vehicle replacement programme, which defines the expected economic and/or physical lives of the different vehicle types.</li> </ul>
Wharves	<p>Independent valuer: Opus International Consultants Limited, Beca Projects NZ Limited, Jones Lang Lasalle Limited and NAI Harcourts NZ.</p> <p>Key assumptions:</p> <ul style="list-style-type: none"> <li>• Optimised replacement cost to the extent that optimisation can occur in the normal course of business using commercially available technology.</li> <li>• Useful lives are estimated at 100 years or less at an element level, reflecting the marine environment, rate of change and obsolescence, loadings and the predominance of concrete and steel structural elements.</li> </ul>
Works of art	<p>Independent valuer: Auckland Art Gallery in-house curators, Sotheby's (London) and Mossgreen-Webb's (Auckland), and Art and Object (Auckland)</p> <p>Key assumptions:</p> <ul style="list-style-type: none"> <li>• The fair values of artworks are determined by reference to observable prices in an active market and recent transactions on arm's-length terms, with regards to the asset's condition.</li> </ul>
<b>Restricted</b>	
Parks, reserves and buildings	<p>Independent valuer: Quotable Value Limited</p> <p>Key assumptions:</p> <ul style="list-style-type: none"> <li>• Large reserves are valued based on a rural land value plus locational adjustment taking into consideration active/passive zone differentials which are based on the valuers' professional judgements.</li> <li>• Buildings are based on DRC determined with reference to recent construction contracts and recent costing obtained from construction details and Property Institute of New Zealand's cost information.</li> </ul>

## Section B: Long-term assets

### B1 Property, plant and equipment (continued)

Asset class	Last revalued date	Asset revaluation reserve (in \$million)				Net change for the period (in \$million)	
		Group		Auckland Council		Group	Auckland Council
		2019	2018	2019	2018		
<b>Infrastructure</b>							
Water and wastewater	30 June 2018	1,215	1,219	-	-	(4)	-
Machinery	30 June 2018	151	152	-	-	(1)	-
Stormwater	30 June 2018	799	799	799	799	-	-
Roads and formation	30 June 2017	3,020	3,020	-	-	-	-
<b>Operational</b>							
Land and buildings	30 June 2018	2,129	2,170	1,090	1,116	(41)	(26)
Train stations	30 June 2017	273	273	-	-	-	-
Bus stations and shelters	30 June 2017	14	14	-	-	-	-
Marina structures	30 June 2019	90	36	-	-	54	-
Rolling stock	30 June 2018	4	4	-	-	-	-
Wharves	30 June 2018	90	96	-	-	(6)	-
Works of art	30 June 2019	46	45	26	26	1	-
<b>Restricted</b>							
Parks, reserves and buildings	30 June 2018	1,705	1,707	1,705	1,707	(2)	(2)
<b>Total</b>		<b>9,536</b>	<b>9,535</b>	<b>3,620</b>	<b>3,648</b>	<b>1</b>	<b>(28)</b>

#### Spark Arena (previously named Vector Arena)

Included within operational land and buildings is Spark Arena with a carrying value of \$99 million (2018: \$101 million). The Spark Arena provides Aucklanders with indoor sports and entertainment. It was constructed and is operated by Quay Park Arena Management Limited (QPAM) under a development agreement with the group. The development agreement granted QPAM legal title to the building improvements. Title will revert to the group on 1 August 2046.

The group and QPAM contributed to the cost of building Spark Arena. The group has recognised the asset since it was constructed as the group retains significant risks and rewards over the assets, including a significant residual interest at the end of QPAM's rights period. The initial contribution of QPAM to build the Spark Arena is recognised as operating lease revenue in advance for the use of the Spark Arena. The group recognises the revenue on a straight-line basis over the rights period (see Note F4 for details on operating lease commitments).

#### Heritage assets

Some assets are designated as heritage assets because of their cultural, environmental or historical significance. The heritage assets of the group and the council are classified to specific asset classes according to their nature and are subsequently measured as part of those asset classes. The group and the council have identified the following heritage assets with a net book value of \$396 million:

- heritage books valued at \$150 million as at 30 June 2019; and
- 334 constructed heritage sites valued at \$246 million as at 30 June 2019.

## Section B: Long-term assets

### B1 Property, plant and equipment (continued)

#### Restrictions

Various properties held by the group and the council have restrictions on the use of proceeds generated from them including the sales proceeds. These proceeds may only be applied to specified purposes, generally being to benefit the Auckland region. The current carrying value of the classes of property, plant and equipment where restrictions apply follow:

\$million		Parks, reserves and buildings		Total
		Land and buildings		
Group				
	2019	396	25	421
	2018	397	25	422
Auckland Council				
	2019	199	25	224
	2018	201	25	226

#### Finance leases

Other operational assets include property, plant and equipment subject to finance leases. The value of these leases is \$41 million for the group (2018: \$42 million) and \$41 million for the council (2018: \$42 million).

#### Security over property, plant and equipment

Other than property, plant and equipment subject to finance leases, no other property, plant and equipment is pledged as security for liabilities (2018: \$nil) of the group and the council.

#### Service concession assets

The group's service concession assets are infrastructure assets owned by Watercare Services Limited and operated by Veolia Water Services (ANZ) Pty Limited (Veolia) for the provision of water and wastewater services in the Papakura district.

The franchise agreement stipulates the services Veolia must provide, to whom it must provide them and regulates the price. Veolia is responsible for upgrading and maintaining the entire network in Papakura so that at the end of the contract period (initial term of 30 years ending on 30 June 2027 with a 20-year right of renewal), the network shall be in a better overall condition than that which existed at the time the contract was commenced in 1997. The group retains ownership of the assets and the assets will be returned for use by the group after the contract expires.

Service concession asset upgrades by Veolia are recognised by the group as an asset with a corresponding liability. This liability is amortised over the remaining period of the service concession arrangement. The carrying value of the service concession asset was \$199 million at 30 June 2019 (2018: \$186 million).

No new service concession arrangements were entered into by the group and the council in 2019 (2018: none).

## Section B: Long-term assets

### B1 Property, plant and equipment (continued)



#### Local government disclosures

##### Core assets

Under the Local Government (Financial Reporting and Prudence) Regulations 2014, the council is required to disclose information about the group's core assets.

Included within the infrastructure assets are the following core assets:

\$million	Water supply treatment plants and facilities	Water supply other assets	Sewerage treatment plants and facilities	Sewerage other assets	Storm water drainage	Flood protection and control works	Roads and footpaths
<b>2019</b>							
Assets constructed	33	82	149	119	83	12	94
Assets transferred	-	24	-	38	76	-	68
Closing book value	938	3,002	1,125	3,929	4,573	8	10,075
Estimated replacement cost	1,634	5,231	1,574	7,067	6,075	104	16,065
<b>2018</b>							
Assets constructed	33	82	108	78	101	9	198
Assets transferred	-	10	1	19	62	1	21
Closing book value	942	3,017	1,113	3,914	4,500	4	9,922
Estimated replacement cost	1,626	5,240	1,694	7,081	5,948	101	14,620

##### Insurance of assets

Under the LGA 2002, the council is required to disclose the following information on insurance of the group's assets as at 30 June 2019:

\$million	Book value	Insured value	Replacement value of self-insured assets	Commentary
Roads and formation	10,580	-	16,065	Uninsured. However, subject to meeting defined criteria, the cost associated with the immediate response, reopening and/or restoration of these assets as a result of a short natural event such as earthquake, tsunami, could be subsidised by the New Zealand Transport Agency.
Water and wastewater and machinery	9,543	18,205	-	Above ground infrastructure which includes water supply and wastewater treatment plants, pump stations and mobile plant and equipment to a value of \$4.6 billion with a maximum insured value of \$1 billion per event reducing to \$450 million per event for fire. Below ground infrastructure, the group obtains insurance cover up to \$1.5 billion per event and in aggregate for loss or damage to the assets due to natural disaster. Currently central government funds 60% of the loss limit for eligible costs.
Stormwater	4,700	6,240	-	Below ground infrastructure is mainly pipes, culverts and valves. For below ground infrastructure, the group obtains insurance cover up to \$1.5 billion per event and in aggregate for loss or damage to the assets due to natural disaster. Currently central government funds 60% of the loss limit for eligible costs.
Buildings, wharves, other above-ground structures and other operational assets	6,691	14,601	-	For any natural disaster, the group has a maximum coverage of \$1 billion per event and in the aggregate in the period of insurance, reducing to \$450 million per event for fire.
Rolling stock	461	520	-	Insurance is for the entire network and includes the electric trains. The group has a maximum coverage of \$100 million per event.
Land	16,081	-	16,081	All land (including restricted land) held by the group and the council is not insured due to low risk of loss.
<b>Total</b>	<b>48,056</b>	<b>39,566</b>	<b>32,146</b>	

A fund for the purpose of self-insurance is not maintained by the group and the council.

## Section B: Long-term assets

### B2 Intangible assets

#### Accounting policy

##### Initial recognition and subsequent measurement

Purchased intangible assets are initially recognised at cost. For internally generated intangible assets, the cost includes direct employee costs, a reasonable portion of overhead and other direct costs that are incurred within the development phase of the asset. Intangible assets acquired at no cost are initially recognised at fair value where they can be reliably measured. After initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

##### Useful lives

The useful lives used to calculate the amortisation of intangible assets are as follows:

<b>Class of intangible asset</b>	<b>Estimated useful life</b>
Computer software	1 to 15 years
Intellectual property	3 to 35 years
Other intangible assets	1 to 63 years

##### Disposals

Gains and losses from the disposal of intangible assets are recognised in surplus or deficit.

##### Impairment

Intangible assets that have indefinite useful life are tested annually for impairment. Intangible assets that have 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 in surplus or deficit 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 its value in use.

Assets are considered cash generating if their primary objective is to provide a commercial return. The value in use for cash-generating assets is the present value of expected future cash flows.

For non-cash generating assets, value in use is determined using an approach based on a depreciated replacement cost.

## Section B: Long-term assets

### B2 Intangible assets (continued)

Group 2019 \$million	Opening balance			Current year	Closing balance		
	Cost	Accumulated depreciation and impairment	Carrying amount	Current year movements	Cost	Accumulated depreciation and impairment	Carrying amount
Computer software	737	(406)	331	36	854	(487)	367
Rights to acquire	10	-	10	-	10	-	10
Intellectual property	88	(56)	32	1	97	(64)	33
Other	113	(25)	88	1	118	(29)	89
Work in progress	102	-	102	39	141	-	141
<b>Total Group</b>	<b>1,050</b>	<b>(487)</b>	<b>563</b>	<b>77</b>	<b>1,220</b>	<b>(580)</b>	<b>640</b>

#### Group 2018 \$million

Computer software	656	(332)	324	7	737	(406)	331
Rights to acquire	10	-	10	-	10	-	10
Intellectual property	78	(49)	29	3	88	(56)	32
Other	90	(19)	71	17	113	(25)	88
Work in progress	77	-	77	25	102	-	102
<b>Total Group</b>	<b>911</b>	<b>(400)</b>	<b>511</b>	<b>52</b>	<b>1,050</b>	<b>(487)</b>	<b>563</b>

Group 2019 \$million	Current year movements							
	Transfers from work in progress	Internally developed	Acquisition	Amortisation (Note A4)	Impairment	Disposals	Transfers*	Total
Computer software	119	-	-	(82)	-	(1)	-	36
Rights to acquire	-	-	-	-	-	-	-	-
Intellectual property	10	-	-	(9)	-	-	-	1
Other	5	-	-	(4)	-	-	-	1
Work in progress	(134)	26	147	-	-	-	-	39
<b>Total Group</b>	<b>-</b>	<b>26</b>	<b>147</b>	<b>(95)</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>77</b>

#### Group 2018 \$million

Computer software	87	-	-	(78)	-	(2)	-	7
Rights to acquire	-	-	-	-	-	-	-	-
Intellectual property	10	-	-	(7)	-	-	-	3
Other	5	-	-	(4)	-	-	16	17
Work in progress	(102)	50	77	-	-	-	-	25
<b>Total Group</b>	<b>-</b>	<b>50</b>	<b>77</b>	<b>(89)</b>	<b>-</b>	<b>(2)</b>	<b>16</b>	<b>52</b>

\*Includes transfers between classes within intangibles, as well as between intangibles and property, plant and equipment.

## Section B: Long-term assets

### B2 Intangible assets (continued)

Auckland Council 2019 \$million	Opening balance			Current year	Closing balance		
	Cost	Accumulated depreciation and impairment	Carrying amount	Current year movements	Cost	Accumulated depreciation and impairment	Carrying amount
Computer software	457	(246)	211	(21)	480	(290)	190
Rights to acquire	10	-	10	-	10	-	10
Intellectual property	82	(54)	28	2	91	(61)	30
Other	25	(11)	14	-	27	(13)	14
Work in progress	41	-	41	16	57	-	57
<b>Total Auckland Council</b>	<b>615</b>	<b>(311)</b>	<b>304</b>	<b>(3)</b>	<b>665</b>	<b>(364)</b>	<b>301</b>
<b>Auckland Council 2018 \$million</b>							
Computer software	422	(204)	218	(7)	457	(246)	211
Rights to acquire	10	-	10	-	10	-	10
Intellectual property	72	(47)	25	3	82	(54)	28
Other	17	(8)	9	5	25	(11)	14
Work in progress	35	-	35	6	41	-	41
<b>Total Auckland Council</b>	<b>556</b>	<b>(259)</b>	<b>297</b>	<b>7</b>	<b>615</b>	<b>(311)</b>	<b>304</b>

Auckland Council 2019 \$million	Current year movements							
	Transfers from work in progress	Internally developed	Acquisition	Amortisation (Note A4)	Impairment	Disposals	Transfers*	Total
Computer software	24	-	-	(45)	-	-	-	(21)
Rights to acquire	-	-	-	-	-	-	-	-
Intellectual property	9	-	-	(7)	-	-	-	2
Other	2	-	-	(2)	-	-	-	-
Work in progress	(35)	-	51	-	-	-	-	16
<b>Total Auckland Council</b>	<b>-</b>	<b>-</b>	<b>51</b>	<b>(54)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3)</b>
<b>Auckland Council 2018 \$million</b>								
Computer software	38	-	-	(44)	-	(1)	-	(7)
Rights to acquire	-	-	-	-	-	-	-	-
Intellectual property	10	-	-	(7)	-	-	-	3
Other	2	-	-	(2)	-	-	5	5
Work in progress	(50)	-	56	-	-	-	-	6
<b>Total Auckland Council</b>	<b>-</b>	<b>-</b>	<b>56</b>	<b>(53)</b>	<b>-</b>	<b>(1)</b>	<b>5</b>	<b>7</b>

\*Includes transfers between classes within intangibles, as well as between intangibles and property, plant and equipment.

## Section B: Long-term assets

### B2 Intangible assets (continued)

#### Intellectual property

Integrated catchment data and network models are intellectual property that provide local information about the stormwater network performance to identify any problems in relation to capacity and interaction with the environment. The models are used for long-term management of the network.

#### Other intangible assets

Other intangible assets of the group (\$89 million) include the following:

- Rights to occupy of \$41 million as at 30 June 2019 (2018: \$41 million) which have been recognised at fair value on acquisition and are being amortised over the period of the underlying lease. \$28 million is for the land at each of the railway station sites along the Auckland passenger rail network. The right to occupy in the underlying lease period of 63 years is due to expire in 2073. \$13 million is for additional access to the railway network. The right to occupy in the underlying lease period of 85 years is due to expire in 2099.
- Resource consents valued at \$31 million as at 30 June 2019 (2018: \$30 million) which are essential to long-term programme of future capital works and are being amortised over the period of 1 to 38 years (2018: 1 to 38 years).

#### Restrictions to title and security over intangible assets

There are no restrictions over the title of intangible assets of the group and the council, nor are any intangible assets pledged as security for liabilities (2018: \$nil).

#### Work in progress

Intangible assets under construction are detailed below:

\$million	Group		Auckland Council	
	2019	2018	2019	2018
Computer software	70	58	28	15
Intellectual property	29	44	29	26
Other	42	-	-	-
<b>Total</b>	<b>141</b>	<b>102</b>	<b>57</b>	<b>41</b>

### B3 Investment property

#### Accounting policy



Investment property includes land, commercial buildings and water space licences held to generate income. Investment property is initially recognised at cost and subsequently measured at fair value. Valuations are undertaken, annually by independent registered valuers with appropriate recognised professional qualifications and recent experience in Auckland and in investment properties. Gains or losses arising from changes in fair value are included in surplus or deficit. Investment properties are valued individually and not depreciated.



## Section B: Long-term assets

### B3 Investment property (continued)

Investment property	Valuation method and assumptions used
Land	Independent valuer: CBRE Limited, Colliers International New Zealand, Darroch Limited, Quotable Value Limited and Seagar & Partners Limited. <ul style="list-style-type: none"> <li>Individually considered and valued in accordance with current market-based evidence.</li> <li>Valued as vacant under freehold or leasehold tenure.</li> <li>Valuations consider the size, contour, quality, location, zoning, designation, and current and potential use.</li> </ul>
Commercial property	Independent valuer: CBRE Limited, Darroch Limited, Quotable Value Limited and Seagar & Partners Limited. <ul style="list-style-type: none"> <li>Based on indicative yields derived from current prices of comparable property in an active market.</li> </ul>
Water space licence	Independent valuer: CBRE Limited and Seagar & Partners Limited. <ul style="list-style-type: none"> <li>Uses the discounted cash flow method based on yields of 4% to 6% (2018: 6%) considering the future rental revenue from existing and anticipated new tenants, and any residual value of the Group's interest in the investment.</li> </ul>

The movement in investment property is as follows:

\$million	Group		Auckland Council	
	2019	2018	2019	2018
Opening balance	761	735	133	162
Net increase in fair value of investment property	16	24	7	9
Additions from acquisition	32	11	358	19
Disposals	-	-	-	-
Net transfers to property, plant and equipment	(180)	(9)	-	(57)
<b>Closing balance</b>	<b>629</b>	<b>761</b>	<b>498</b>	<b>133</b>

Included in additions from acquisition is \$351 million related to the asset transfer from Panuku Development Auckland Limited to the council. Refer to Note F5 for further details about this transaction.

Rental income and expenses relating to investment property are as follows:

\$million	Group		Auckland Council	
	2019	2018	2019	2018
Rental income	30	30	6	7
Expenses	8	6	3	2

The group and the council have no investment property pledged as security for liabilities during the year (2018: \$nil).

## Section C: Borrowings and financial instruments

This section provides details of the Auckland Council Group and Auckland Council's borrowings - a major source of financing used to deliver services to the people of Auckland. It also includes information about the group's financial instruments that are used to manage the risks associated with borrowings.

The notes included in this section are as follows:

- C1 Borrowings
- C2 Derivative financial instruments
- C3 Other financial assets
- C4 Fair value and classification of financial instruments

## Section C: Borrowings and financial instruments

### C1 Borrowings

#### Accounting policy

Borrowings are initially recognised at face value plus transaction costs and are subsequently measured at amortised cost using the effective interest method.

Foreign currency borrowings are translated into NZD using the spot rates at balance date. Foreign exchange gains and losses resulting from the settlement of borrowings and from translation are recognised in the surplus or deficit.

\$million	Group		Auckland Council	
	2019	2018	2019	2018
<b>Current</b>				
Secured borrowings	1,172	764	1,172	764
Unsecured borrowings	-	141	-	-
<b>Total current borrowings</b>	<b>1,172</b>	<b>905</b>	<b>1,172</b>	<b>764</b>
<b>Non-current</b>				
Secured borrowings	7,291	7,549	7,291	7,549
Unsecured borrowings	495	378	-	-
<b>Total non-current borrowings</b>	<b>7,786</b>	<b>7,927</b>	<b>7,291</b>	<b>7,549</b>
<b>Total borrowings</b>	<b>8,958</b>	<b>8,832</b>	<b>8,463</b>	<b>8,313</b>
<b>Consisting of:</b>				
Fixed rate borrowings	2,040	2,540	1,870	2,245
Floating rate borrowings	6,918	6,292	6,593	6,068
<b>Total borrowings</b>	<b>8,958</b>	<b>8,832</b>	<b>8,463</b>	<b>8,313</b>

Borrowings occur through domestic retail and wholesale debt issuance, LGFA, and via foreign debt markets. The foreign currency denominated debt of the Auckland Council Group (the group) and Auckland Council (the council) is \$3,794 million as at 30 June 2019 (2018: \$3,854 million) and is hedged to eliminate foreign exchange risk. Refer to Note E3 for further information.

The council's borrowings are secured by a charge over current and future rates revenue.

External borrowings of Ports of Auckland Limited are included in unsecured borrowings. These are borrowed under negative pledge arrangements, which do not grant security over their assets. Certain financial ratios are set as requirements in these arrangements which were in place for both 2018 and 2019.

There were no defaults or breaches by the group or the council on any borrowing arrangement during the year (2018: nil).

#### Housing Infrastructure Fund

In September 2018 the group was allocated \$339 million of the Crown's \$1 billion Housing Infrastructure Fund. The funds will be used for transport, stormwater, water supply and wastewater projects to enable the accelerated development of up to 7,771 new dwellings at Redhills and Whenuapai in Auckland's northwest.

The funds will be received in the following manner:

- advanced funding from the New Zealand Transport Agency (NZTA)'s National Land Transport Programme for public transport of \$203 million; and
- interest free loans for storm water, water supply and wastewater projects of \$136 million.

As at 30 June 2019 there was no drawdown of the loans and no liability was recognised for the advanced funding from the NZTA's National Land Transport Programme as there is no requirement to deliver cash or exchange financial instruments to settle the funding.

## Section C: Borrowings and financial instruments

### C1 Borrowings (continued)

#### Interest rates

The weighted average cost of funds for the group's borrowings including interest rate hedging instruments as at 30 June 2019, is 4.7% (2018: 5.3%). Refer to notes A5 and E2 for the net finance costs during the period and the interest rate risk analysis, respectively.



#### Local government disclosures

##### Internal borrowings

In relation to each group of activities, the council has incurred no internal borrowings during the financial year to 30 June 2019. The group and the council maintain sufficient cash balances at all times.

##### Credit ratings

The council has a S&P Global Ratings credit rating of AA (Stable outlook) and Moody's credit rating of Aa2 (Stable outlook). The S&P Global Ratings rating was reaffirmed in September 2018 and the Moody's rating in April 2019.

### C2 Derivative financial instruments

#### Accounting policy



The group and the council use derivative financial instruments, such as forward foreign currency contracts and interest rate swaps to mitigate risks associated with foreign currency and interest rate fluctuations. The group and the council do not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Any gains or losses arising from changes in the fair value of derivatives are taken directly to surplus or deficit, except for the effective portion of derivatives designated in cash flow hedges.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivative assets and derivative liabilities are classified as current when the maturity is 12 months or less from balance date or non-current when the maturity is more than 12 months from balance date.

##### Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised directly in other comprehensive revenue and expenditure. The gain or loss relating to the ineffective portion is recognised immediately in surplus or deficit. On derecognition, amounts accumulated in cash flow hedge reserve are transferred to surplus or deficit.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the cash flow hedge reserve at that time remains in equity and is recognised when the forecast transaction occurs.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss in cash flow hedge reserve is recognised immediately in the surplus or deficit.

When a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognised in other comprehensive revenue and expenditure are transferred to the initial cost of the carrying amount of the non-financial asset or liability.

## Section C: Borrowings and financial instruments

### C2 Derivative financial instruments (continued)



#### Significant judgements and estimates used in the valuation of derivative financial instruments:

The derivatives of the group and the council are all under level 2 of the fair value hierarchy (see Note C4). The fair values of level 2 derivatives are determined using discounted cash flow valuation techniques based on the terms and valuation inputs from independently sourced market parameters summarised below:

Item	Valuation input
Interest rate swaps	Spot and forward interest rate yield curve
Forward foreign currency contracts	Forward foreign exchange rate curve
Cross-currency interest rate swaps	Spot and forward interest rate yield curve and spot foreign exchange rates
Basis swaps	Forward basis swap curve
Forward rate agreements (on basis swaps)	Forward basis swap curve
Interest rate options	Forward interest rate yield curve

Group \$million	2019				2018			
	Assets		Liabilities		Assets		Liabilities	
	Notional <sup>1</sup>	Fair value	Notional <sup>1</sup>	Fair value	Notional <sup>1</sup>	Fair value	Notional <sup>1</sup>	Fair value
<b>Current</b>								
Interest rate swaps								
- cash flow hedge	-	-	10	-	-	-	40	1
- fair value through surplus or deficit	500	3	100	2	300	2	300	4
Forward foreign currency contract								
- cash flow hedge	2	-	11	-	38	4	15	-
- fair value through surplus or deficit	-	-	108	7	24	1	-	-
<b>Total current</b>	<b>502</b>	<b>3</b>	<b>229</b>	<b>9</b>	<b>362</b>	<b>7</b>	<b>355</b>	<b>5</b>
<b>Non-current</b>								
Interest rate swaps								
- cash flow hedge	-	-	130	10	-	-	140	7
- fair value through surplus or deficit	1,055	58	9,409	1,765	2,075	37	8,539	892
Forward foreign currency contract								
- fair value through surplus or deficit	-	-	14	1	-	-	113	2
Cross-currency interest rate swaps								
- fair value through surplus or deficit	2,971	373	729	63	2,708	242	992	56
Basis swaps								
- fair value through surplus or deficit	1,636	10	420	-	1,216	3	840	3
Interest rate options								
- fair value through surplus or deficit	-	-	-	-	-	-	50	3
<b>Total non-current</b>	<b>5,662</b>	<b>441</b>	<b>10,702</b>	<b>1,839</b>	<b>5,999</b>	<b>282</b>	<b>10,674</b>	<b>963</b>
<b>Total derivative</b>	<b>6,164</b>	<b>444</b>	<b>10,931</b>	<b>1,848</b>	<b>6,361</b>	<b>289</b>	<b>11,029</b>	<b>968</b>

Auckland Council \$million	2019				2018			
	Assets		Liabilities		Assets		Liabilities	
	Notional <sup>1</sup>	Fair value	Notional <sup>1</sup>	Fair value	Notional <sup>1</sup>	Fair value	Notional <sup>1</sup>	Fair value
<b>Current</b>								
Interest rate swaps								
- fair value through surplus or deficit	500	2	100	1	175	1	215	3
Forward foreign currency contract								
- fair value through surplus or deficit	107	7	108	7	24	1	-	-
<b>Total current</b>	<b>607</b>	<b>9</b>	<b>208</b>	<b>8</b>	<b>199</b>	<b>2</b>	<b>215</b>	<b>3</b>

<sup>1</sup> The notional principal amounts presented for the group and the council reflect transactions with third parties. The council's position includes both external and intra-group derivatives.

## Section C: Borrowings and financial instruments

### C2 Derivative financial instruments (continued)

Auckland Council \$million	2019				2018			
	Assets		Liabilities		Assets		Liabilities	
	Notional <sup>1</sup>	Fair value	Notional <sup>1</sup>	Fair value	Notional <sup>1</sup>	Fair value	Notional <sup>1</sup>	Fair value
<b>Non-current</b>								
Interest rate swaps								
- fair value through surplus or deficit	1,055	58	9,409	1,766	1,975	30	7,024	672
Forward foreign currency contract								
- fair value through surplus or deficit	14	1	14	1	113	2	113	2
Cross-currency interest rate swaps								
- fair value through surplus or deficit	2,971	373	729	63	2,708	242	992	56
Basis swaps								
- fair value through surplus or deficit	1,636	10	420	-	1,216	4	840	3
<b>Total non-current</b>	<b>5,676</b>	<b>442</b>	<b>10,572</b>	<b>1,830</b>	<b>6,012</b>	<b>278</b>	<b>8,969</b>	<b>733</b>
<b>Total derivative</b>	<b>6,283</b>	<b>451</b>	<b>10,780</b>	<b>1,838</b>	<b>6,211</b>	<b>280</b>	<b>9,184</b>	<b>736</b>

<sup>1</sup> The notional principal amounts presented for the group and the council reflect transactions with third parties. The council's position includes both external and intra-group derivatives.

### C3 Other financial assets

#### Accounting policy



The group and the council's other financial assets are initially recognised at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in surplus or deficit.

Other financial assets of the group and the council include loans to related parties, credit support annex, bonds, borrower notes, community loans and listed and unlisted shares.

The accounting policies on classification of these financial assets for the purpose of measurement are outlined in Note C4.

#### Impairment of loans to related parties and financial guarantee contracts

For loans to related parties and financial guarantees, expected credit losses (ECLs) are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL). The financial effects are not material and the balances are not adjusted.

## Section C: Borrowings and financial instruments

### C3 Other financial assets (continued)

\$million	Group		Auckland Council	
	2019	2018	2019	2018
<b>Current</b>				
Short-term deposits	24	129	22	126
Loans to related parties	-	-	7	8
Borrowers notes	3	6	3	6
Listed shares	-	-	-	-
Other	29	16	29	16
<b>Total current</b>	<b>56</b>	<b>151</b>	<b>61</b>	<b>156</b>
<b>Non-current</b>				
Loans to related parties	4	4	2,246	1,967
Borrowers notes	36	28	36	28
Listed shares	44	43	-	-
Other	47	46	34	34
<b>Total non-current</b>	<b>131</b>	<b>121</b>	<b>2,316</b>	<b>2,029</b>
<b>Total other financial assets</b>	<b>187</b>	<b>272</b>	<b>2,377</b>	<b>2,185</b>

#### Loans to related parties

The council has loans to Auckland Transport and Watercare Services Limited (Watercare). The interest rates on loans to Auckland Transport reflect the cost of borrowing by the council at the time the loans were made. Interest rates on the loans for the year ended 30 June 2019 range from 5.6% to 6.6% (2018: 2.1% to 6.6%).

On 1 July 2018, the council and Watercare entered into a new intercompany loan agreement and revised the borrowing terms. The interest rate on the loan to Watercare is fixed in advance on an annual basis, using the council's expected cost of funds. An annual review of actual interest rate is carried out close to the end of the financial year and adjustment will be made if the actual interest rate falls below the expected cost of funds. Interest rate on the loan for the year ended 30 June 2019 is 5.4%. The loan to Watercare is classified as fair value through surplus or deficit.

The fair value of the Watercare loan is calculated using the discounted cashflow method. The significant inputs used in the fair value measurement of the loan to Watercare are the observable market rates. Prices are adjusted by a discount rate which captures the time value of money, counterparty and credit considerations.

Refer to Note A2 for details of other financial contributions provided by the council.

#### Listed shares

Listed shares represent an investment holding of 19.9% in Marsden Maritime Holdings Limited, that offer the Group the opportunity for returns through dividend income and fair value gains.

The fair value of these securities is based on quoted market prices. Fair value changes in the investment are recognised in other comprehensive income. The group's listed shares are all categorised as Level 1 as described in Note C4.

In the prior year, the group had designated listed shares as available-for-sale. On adoption of PBE IFRS 9, the group has made an irrevocable election to classify the listed shares at FVTOCRE as the group considers this investment to be strategic in nature. Upon disposal, any related balance within the FVTOCRE reserve is reclassified to accumulated funds.

The gains or losses on the listed shares are recognised in other comprehensive revenue and expenditure, except for any impairment losses. Dividends from listed shares are recognised in surplus or deficit when the group's right to receive payment is established. The group recognised a dividend income of \$1.3 million from its investment in listed shares.

The group assesses at each balance date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Listed shares are deemed to be impaired when there is a significant or prolonged decline in fair value below the original purchase price.

## Section C: Borrowings and financial instruments

### C3 Other financial assets (continued)

#### Borrower notes

Borrower notes are subordinated convertible debt instruments that the council subscribes for in an amount equal to 1.6% of the total borrowing from LGFA. LGFA will redeem borrower notes when the council's related borrowings are repaid or no longer owed to LGFA.

The fair value of borrower notes is calculated using the discounted cashflow method. The significant input used in the fair value measurement of borrower notes is the forward interest rate yield curve.

#### Other

Significant items included within other are as follows:

##### *Credit Support Annex (CSA)*

The group and the council are exposed to counterparty credit risk through their derivative contracts. This risk is mitigated by entering into CSAs with counterparties that collateralise derivative exposures. The group and the council have transactions covered by CSAs with the following counterparties: Citibank and Hong Kong and Shanghai Banking Corporation (HSBC). As at 30 June 2019, the group and the council had a liability of \$3 million (refer to Note D3) for repayment of cash collateral received from HSBC (2018: an asset of \$10 million), and an asset of \$23 million for cash collateral pledged to Citibank (2018: a liability of \$25 million, refer to Note D3).

##### *Unlisted shares*

The group and the council have investments of \$7 million (2018: \$8 million) in LGFA and Civic Financial Services Limited. The fair values are determined by reference to the council's share of net asset backing in these companies as there is no market information on the value of the organisations' shares.

### C4 Fair value and classification of financial instruments

#### Accounting policy



For those financial instruments recognised at fair value in the statement of financial position, fair values are determined according to the following hierarchy:

Level 1- Quoted prices (unadjusted) in active markets for identical assets or liabilities. The quoted market price used for financial assets held by the group and the council is the bid price at balance date.

Level 2- Inputs other than quoted prices included within level 1 using observable market inputs for the asset or liability, either directly or indirectly.

Level 3- Inputs for the asset or liability that are not based on observable market data.

Refer to Note C2 and C3 for the valuation techniques used to value derivative financial instruments and other financial assets, respectively.



## Section C: Borrowings and financial instruments

### C4 Fair value and classification of financial instruments (continued)

The fair value hierarchy for the group and the council are as follows:

\$million	Level	Group			Auckland Council		
		30 Jun 2019	1 Jul 2018	30 Jun 2018	30 Jun 2019	1 Jul 2018	30 Jun 2018
<b>Financial assets at fair value through surplus or deficit</b>							
Investment in managed funds	1	12	11	-	-	-	-
Borrower notes	2	39	38	-	39	38	-
Loans to related party - Watercare	2	-	-	-	1,754	-	-
Unlisted shares	3	7	8	8	7	8	8
<b>Financial assets at fair value through other comprehensive revenue and expenditure</b>							
Listed shares	1	44	43	43	-	-	-
Investment in managed funds	1	-	-	11	-	-	-
<b>Derivative assets</b>	2	443	289	289	451	280	280
<b>Total financial assets</b>		<b>545</b>	<b>389</b>	<b>351</b>	<b>2,251</b>	<b>326</b>	<b>288</b>
<b>Derivative liabilities</b>	2	1,848	968	968	1,838	736	736
<b>Total financial liabilities</b>		<b>1,848</b>	<b>968</b>	<b>968</b>	<b>1,838</b>	<b>736</b>	<b>736</b>

There were no transfers between the different levels of the fair value hierarchy during the year (2018: \$nil).

#### Accounting policy

For the purpose of measurement, the group and the council's financial assets and liabilities are classified into categories. The classification depends on the purpose for which the financial assets and liabilities are held. Management determines the classification of financial assets and liabilities and recognises these at fair value at initial recognition. Subsequent measurement and the treatment of gains and losses are presented below:

Categories	Subsequent measurement	Treatment of gains and losses
Fair value through surplus or deficit	Fair value	Surplus or deficit
Fair value through other comprehensive revenue and expenditure (2018: Available for sale)	Fair value	Other comprehensive revenue and expenditure
Amortised cost (2018: Loans and receivables)	Amortised cost less provision for impairment	Surplus or deficit
Financial liabilities at amortised cost	Amortised cost	Surplus or deficit

Derivatives are, by their nature, categorised as fair value through surplus or deficit unless they are designated into a hedge relationship for which hedge accounting is applied.

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position when offset is legally enforceable and there is an intention to settle on a net basis. Revenue and expenses arising as a result of financial instrument earnings or fair value adjustments are recognised as a net result for like items.

## Section C: Borrowings and financial instruments

### C4 Fair value and classification of financial instruments (continued)

The category and the comparison of carrying amount and fair value of the group and the council's financial instruments are as follows:

\$million	Group		Group		Group	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	30 Jun 2019	30 Jun 2019	1 Jul 2018	1 Jul 2018	30 Jun 2018	30 Jun 2018
<b>Assets</b>						
<b>Financial assets at fair value through surplus or deficit</b>						
Borrower notes	39	39	38	38	-	-
Investments in managed funds	12	12	11	11	-	-
Unlisted shares	7	7	8	8	-	-
Derivative assets	443	443	285	285	285	285
<b>Total</b>	<b>501</b>	<b>501</b>	<b>342</b>	<b>342</b>	<b>285</b>	<b>285</b>
<b>Financial assets at fair value through other comprehensive revenue and expenditure (2018: Available for sale)</b>						
Listed shares	44	44	43	43	43	43
Unlisted shares	-	-	-	-	8	8
Investments in managed funds	-	-	-	-	11	11
<b>Total</b>	<b>44</b>	<b>44</b>	<b>43</b>	<b>43</b>	<b>62</b>	<b>62</b>
<b>Financial assets at amortised cost (2018: Loans and receivables)</b>						
Cash and cash equivalents	294	294	618	619	618	619
Receivables (excluding GST receivables and prepayments)	462	462	362	362	362	362
Loans to related parties	4	4	4	4	4	4
Other financial assets	82	82	173	173	206	211
<b>Total</b>	<b>842</b>	<b>842</b>	<b>1,157</b>	<b>1,158</b>	<b>1,190</b>	<b>1,196</b>
<b>Derivatives in hedge relationships</b>						
Derivative assets	-	-	4	4	4	4
<b>Total assets</b>	<b>1,387</b>	<b>1,387</b>	<b>1,546</b>	<b>1,547</b>	<b>1,541</b>	<b>1,547</b>
<b>Liabilities</b>						
<b>Financial liabilities at fair value through surplus or deficit</b>						
Derivative liabilities	1,838	1,838	960	960	960	960
<b>Financial liabilities at amortised cost</b>						
Bank overdraft	3	3	8	8	8	8
Borrowings	8,958	9,461	8,832	9,139	8,832	9,139
Payables and accruals (excluding income received in advance)	820	820	650	650	650	650
Financial guarantees	41	41	41	41	41	41
<b>Total</b>	<b>9,822</b>	<b>10,325</b>	<b>9,531</b>	<b>9,838</b>	<b>9,531</b>	<b>9,838</b>
<b>Derivatives in hedge relationships</b>						
Derivative liabilities	10	10	8	8	8	8
<b>Total liabilities</b>	<b>11,670</b>	<b>12,173</b>	<b>10,499</b>	<b>10,806</b>	<b>10,499</b>	<b>10,806</b>

## Section C: Borrowings and financial instruments

### C4 Fair value and classification of financial instruments (continued)

	Auckland Council					
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
\$million	30 Jun 2019	30 Jun 2019	1 Jul 2018	1 Jul 2018	30 Jun 2018	30 Jun 2018
<b>Assets</b>						
<b>Financial assets at fair value through surplus or deficit</b>						
Borrower notes	39	39	38	38	-	-
Unlisted shares	7	7	8	8	-	-
Loans to related party - Watercare	1,754	1,754	-	-	-	-
Derivative assets	451	451	280	280	280	280
<b>Total</b>	<b>2,251</b>	<b>2,251</b>	<b>326</b>	<b>326</b>	<b>280</b>	<b>280</b>
<b>Financial assets at fair value through other comprehensive revenue and expenditure (2018: Available for sale)</b>						
Unlisted shares	-	-	-	-	8	8
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8</b>	<b>8</b>
<b>Financial assets at amortised cost (2018: Loans and receivables)</b>						
Cash and cash equivalents	205	205	584	585	584	585
Receivables (excluding GST receivables and prepayments)	283	283	212	212	212	212
Loans to related parties	499	563	1,975	2,078	1,975	2,078
Other financial assets	78	79	169	169	202	207
<b>Total</b>	<b>1,065</b>	<b>1,130</b>	<b>2,940</b>	<b>3,044</b>	<b>2,973</b>	<b>3,082</b>
<b>Total assets</b>	<b>3,316</b>	<b>3,381</b>	<b>3,266</b>	<b>3,370</b>	<b>3,261</b>	<b>3,370</b>
<b>Liabilities</b>						
<b>Financial liabilities at fair value through surplus or deficit</b>						
Derivative liabilities	1,838	1,838	736	736	736	736
<b>Financial liabilities at amortised cost</b>						
Borrowings	8,463	8,965	8,313	8,617	8,313	8,617
Payables and accruals (excluding income received in advance)	660	660	604	604	604	604
Financial guarantees	41	41	41	41	41	41
<b>Total</b>	<b>9,164</b>	<b>9,666</b>	<b>8,958</b>	<b>9,262</b>	<b>8,958</b>	<b>9,262</b>
<b>Total liabilities</b>	<b>11,002</b>	<b>11,504</b>	<b>9,694</b>	<b>9,998</b>	<b>9,694</b>	<b>9,998</b>

## Section D: Working capital and equity

This section provides information about the operating assets and liabilities available for the Auckland Council Group and Auckland Council's day-to-day activities. This section also contains analysis of the net assets of the group and the council, accumulated funds and restricted reserves.

The notes included in the following section are as follows:

- D1 Cash and cash equivalents
- D2 Receivables and prepayments
- D3 Payables and accruals
- D4 Employee entitlements
- D5 Provisions
- D6 Ratepayer equity

## Section D: Working capital and equity

### D1 Cash and cash equivalents

#### Accounting policy



Cash and cash equivalents are made up of cash on hand, on-demand deposits and other short-term highly liquid investments, net of bank overdraft classified under current liabilities. The carrying value of cash at bank and short-term deposits with original maturities less than three months approximates their fair value.

\$million	Group		Auckland Council	
	2019	2018	2019	2018
Short-term deposits	133	510	161	510
Cash on hand and on-demand bank deposits	161	108	44	74
<b>Cash and cash equivalents</b>	<b>294</b>	<b>618</b>	<b>205</b>	<b>584</b>
Bank overdraft	(3)	(8)	-	-
<b>Net cash and cash equivalents</b>	<b>291</b>	<b>610</b>	<b>205</b>	<b>584</b>

Unspent funds held by Auckland Council Group (the group) and Auckland Council (the council) that are subject to restrictions were:

\$million	2019	2018
Group	80	26
Auckland Council	21	17

Unspent funds relate to trusts and bequests received, and other funds received with restrictions where the spending of the funds is separately monitored.

### D2 Receivables and prepayments

#### Accounting policy



Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

\$million	Group		Auckland Council	
	2019	2018	2019	2018
<b>Current</b>				
Trade receivables	272	239	134	100
Less provision for impairment	(36)	(37)	(14)	(18)
Rates receivables	59	54	59	54
Related party receivables	-	-	69	63
<b>Net receivables</b>	<b>295</b>	<b>256</b>	<b>248</b>	<b>199</b>
Accrued income	120	96	24	8
GST receivable	6	6	24	14
Insurance recoveries	-	1	-	-
Prepayments	39	18	18	11
Other	15	2	4	1
<b>Total current</b>	<b>475</b>	<b>379</b>	<b>318</b>	<b>233</b>
Receivables from exchange transactions	207	196	60	91
Receivables from non-exchange transactions	268	183	258	142
<b>Non-current</b>				
Rates	4	4	4	4
Prepayments	9	3	1	-
Other	28	3	3	-
<b>Total non-current</b>	<b>41</b>	<b>10</b>	<b>8</b>	<b>4</b>
Receivables from exchange transactions	34	6	1	-
Receivables from non-exchange transactions	7	4	7	4
<b>Total receivables and prepayments</b>	<b>516</b>	<b>389</b>	<b>326</b>	<b>237</b>

## Section D: Working capital and equity

### D2 Receivables and prepayments (continued)

Most receivables are non-interest bearing and the carrying value approximates fair value. In relation to rates receivable, ratepayers may apply for payment plan options in special circumstances, which defers the balance to non-current where applicable.

#### Provision for impairment

##### Accounting policy



The provision for impairment of receivables is determined based on an expected credit loss model.

In assessing credit losses for receivables, the group and the council apply the simplified approach and record lifetime expected credit losses (ECLs) on receivables. Lifetime ECLs result from all possible default events over the expected life of a receivable. The group and the council use the provision matrix based on historical credit loss experience upon initial recognition of the receivable, based on reasonable and available information on the customers.

In assessing ECLs on receivables the group and the council consider both quantitative and qualitative inputs. Quantitative data includes past collection rates, ageing of receivables, and trading outlook. Qualitative inputs include past trading history with the group and the council.

To measure the expected credit losses, all receivables have been grouped based on shared credit risk characteristics and the days overdue. Expected loss rates are applied based on payment profiles and corresponding historical credit losses experienced within the year. Expected loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the debtors to settle their debt.

##### Previous accounting policy for impairment of receivables

In prior year, the provision for impairment of receivables is determined by a review of large specific overdue receivables and a collective assessment of smaller receivables. Assessments are undertaken on an ongoing basis. For the collective assessment, expected losses were determined with reference to previously incurred losses. Individual debts which are known to be uncollectible are written off.

The group and the council have early adopted PBE IFRS 9, which has an expected credit loss model for impairment of financial assets. The expected credit loss allowance provision for receivables was calculated using the new PBE IFRS 9 model as at 1 July 2018 and the cumulative impact of the change has been adjusted through retained earnings and as such no comparative information has been presented.

Movements in the provision for impairment for the year ended 30 June 2019 are as follows:

\$million	Group	Auckland Council
Opening provision for impairment as at 1 July 2018 (calculated under PBE IFRS 9)	37	18
Charged to revenue and expenditure	5	1
Bad debts recovered	(5)	(5)
Utilised	(1)	-
<b>Balance as at 30 June 2019</b>	<b>36</b>	<b>14</b>

## Section D: Working capital and equity

### D2 Receivables and prepayments (continued)

The provision for impairment on receivables for both exchange transactions and non-exchange transactions has been determined as follows:

\$million Group	2019			2018			Provision for impairment under PBE IPSAS 29
	Gross carrying amount	Expected loss rate (%)	Provision for impairment	Gross carrying amount	Expected loss rate (%)	Provision for impairment	
Current	84	0%	-	79	0%	-	-
Past due 1 to 60 days	127	0%	-	74	0%	-	-
Past due > 60 days	120	(30%)	(36)	140	(26%)	(37)	37
<b>Total</b>	<b>331</b>		<b>(36)</b>	<b>293</b>		<b>(37)</b>	<b>37</b>
<b>Auckland Council</b>							
Current	94	0%	-	77	0%	-	-
Past due 1 to 60 days	92	0%	-	40	0%	-	-
Past due >60 days	76	(18%)	(14)	100	(18%)	(18)	18
<b>Total</b>	<b>262</b>		<b>(14)</b>	<b>217</b>		<b>(18)</b>	<b>18</b>

### D3 Payables and accruals

#### Accounting policy

Current payables and accruals represent amounts payable within 12 months of balance date and are recognised at cost. Current payables and accruals are non-interest bearing and normally settled on 30-day terms; therefore, the carrying value approximates fair value.

Non-current payables and accruals represent amounts payable more than 12 months from balance date and are measured at the present value of the estimated future cash outflows.



\$million	Group		Auckland Council	
	2019	2018	2019	2018
<b>Current</b>				
Trade payables and accruals	670	519	239	186
Revenue received in advance	64	54	24	25
Deposits and bonds	37	35	31	32
Credit support annex (refer to Note C3)	3	25	3	25
Amounts due to related parties	-	-	322	291
Other	95	55	61	64
<b>Total current</b>	<b>869</b>	<b>688</b>	<b>680</b>	<b>623</b>
Payables from exchange transactions	778	643	262	330
Payables from non-exchange transactions	91	45	418	293
<b>Non-current</b>				
Revenue received in advance	91	88	94	49
Other	15	16	4	6
<b>Total non-current</b>	<b>106</b>	<b>104</b>	<b>98</b>	<b>55</b>
Payables from exchange transactions	95	77	73	28
Payables from non-exchange transactions	11	27	25	27
<b>Total payables and accruals</b>	<b>975</b>	<b>792</b>	<b>778</b>	<b>678</b>

The council's non-current payables and accruals includes an obligation to give Watercare Services Limited (Watercare) unrestricted and sole access to land on Puketutu Island until the earlier of 2066 or until such time that Watercare surrenders its lease over the island. The balance of the deferred revenue as at 30 June 2019 amounted to \$20.9 million (2018: \$21.3 million) and is amortised on a straight-line basis over the lease period of 70 years, being 55 years with a 15 year right of renewal. The lease period is longer than the resource consent period of 35 years as the land will be used beyond the consent period for aftercare.

## Section D: Working capital and equity

### D4 Employee entitlements

#### Accounting policy



Employee entitlements to be settled within 12 months of balance date are reported at the amount expected to be paid within current liabilities. The liability for long-term employee entitlements is measured at the present value of estimated future cash outflows and is reported within non-current liabilities.

\$million	Group		Auckland Council	
	2019	2018	2019	2018
<b>Current</b>				
Short-term employee benefits	104	97	57	52
Other	2	3	2	2
<b>Total current</b>	<b>106</b>	<b>100</b>	<b>59</b>	<b>54</b>
<b>Non-current</b>				
Other	5	5	1	2
<b>Total non-current</b>	<b>5</b>	<b>5</b>	<b>1</b>	<b>2</b>
<b>Total employee entitlements</b>	<b>111</b>	<b>105</b>	<b>60</b>	<b>56</b>

### D5 Provisions

#### Accounting policy



Provisions are recognised in the statement of financial position where the group and the council have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be estimated reliably.

Provisions are measured at the present value of the expected future cash outflows required to settle the obligation. The increase in the provision due to the passage of time is recognised as finance cost in surplus or deficit.

#### Financial guarantees

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under PBE IFRS 9 *Financial Instruments*; and
- the amount initially recognised less, where appropriate, the cumulative amount of amortisation recognised in accordance with the principles of PBE IPSAS 9.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations. Refer to Note C3 for Provision accounting policy.

#### Discount rate

The present value of cash flows is calculated using a discount rate equivalent to the appropriate risk-free rate relevant for the timing of cash flows, published by New Zealand Treasury as the government bond rate (1.0% to 3.0%). At 30 June 2019, the group and the council determined that risk-free rates, appropriately represented the risks specifically related to time value of money (2018: 2.0% to 5.0%).



## Section D: Working capital and equity

### D5 Provisions (continued)

Group \$million	Weather-tightness	Contaminated land and closed landfills	Financial guarantees	Other	Total
Opening balance	319	115	41	57	532
Additional provisions and increases to existing provisions	49	20	-	17	86
Amounts used	(134)	(10)	-	(5)	(149)
Reversal of previously recognised provisions	-	-	-	(19)	(19)
Change in discount rate	-	16	-	-	16
Discount unwind	4	2	-	(2)	4
<b>Balance as at 30 June 2019</b>	<b>238</b>	<b>143</b>	<b>41</b>	<b>48</b>	<b>470</b>
<b>Current</b>	87	12	40	32	171
<b>Non-current</b>	151	131	1	16	299
Opening balance	265	106	42	43	456
Additional provisions and increases to existing provisions	82	10	-	30	122
Amounts used	(34)	(5)	-	(11)	(50)
Reversal of previously recognised provisions	-	(3)	(1)	(5)	(9)
Change in discount rate	-	5	-	-	5
Discount unwind	6	2	-	-	8
<b>Balance as at 30 June 2018</b>	<b>319</b>	<b>115</b>	<b>41</b>	<b>57</b>	<b>532</b>
<b>Current</b>	80	8	-	39	127
<b>Non-current</b>	239	107	41	18	405

Auckland Council \$million	Weather-tightness	Contaminated land and closed landfills	Financial guarantees	Other	Total
Opening balance	319	110	41	48	518
Additional provisions and increases to existing provisions	49	19	-	12	80
Amounts used	(134)	(10)	-	(2)	(146)
Reversal of previously recognised provisions	-	-	-	(16)	(16)
Change in discount rate	-	15	-	-	15
Discount unwind	4	2	-	(2)	4
<b>Balance as at 30 June 2019</b>	<b>238</b>	<b>136</b>	<b>41</b>	<b>40</b>	<b>455</b>
<b>Current</b>	87	11	40	27	165
<b>Non-current</b>	151	125	1	13	290
Opening balance	265	101	42	36	444
Additional provisions and increases to existing provisions	82	9	-	26	117
Amounts used	(34)	(4)	-	(9)	(47)
Reversal of previously recognised provisions	-	(3)	(1)	(5)	(9)
Change in discount rate	-	5	-	-	5
Discount unwind	6	2	-	-	8
<b>Balance as at 30 June 2018</b>	<b>319</b>	<b>110</b>	<b>41</b>	<b>48</b>	<b>518</b>
<b>Current</b>	80	8	-	32	120
<b>Non-current</b>	239	102	41	16	398

#### Provision for weathertightness claims

The group and the council are required to make provision in their accounts for weathertightness claims covering active, reported and unreported claims. Weathertightness claims include costs of remediation of weathertightness issues as well as the remediation of other defects included in weathertightness claims for which the council is liable e.g. structural and fire system defects.

## Section D: Working capital and equity

### D5 Provisions (continued)

The provision comprises of:

\$million	Multi-unit buildings	Single buildings	Total
Active provision	130	3	133
Reported provision	17	16	33
Unreported provision	55	17	72
<b>Balance as at 30 June 2019</b>	<b>202</b>	<b>36</b>	<b>238</b>
Active provision	201	4	205
Reported provision	20	14	34
Unreported provision	61	19	80
<b>Balance as at 30 June 2018</b>	<b>282</b>	<b>37</b>	<b>319</b>

Active claims are those claims which have been lodged with the council, have a loss and a cost reserve, and are progressing through the resolution process. There is a high degree of certainty overestimates for active claims.

The provision for reported and unreported claims is based on calculations provided by independent actuaries. Reported claims are those that have been lodged but are not yet progressing through the resolution process. Unreported claims are those which the council may be liable for but have not yet been reported or identified. Due to the significant degree of estimation included, the group and the council may be subject to further liability that is considered as unquantifiable contingencies (refer to Note F4).



#### Significant judgements and estimates<sup>1</sup> used in calculating provision for weathertightness are:

The significant assumptions used to determine the valuation of claims are based on single units and multi-units dwelling types, as follows:

##### Reported claims

- There are 510 dwellings that are currently reported (395 multi and 115 single) with a discontinuance rate then applied (10% multi and 30% single).

##### Unreported claims

- Prevalence rates indicate there is an estimated 549 dwellings (487 multi and 62 single) that will notify in the future with a discontinuance rate then applied (10% multi and 30% single).

##### Reported and unreported claims

- The assessed quantum for repair which differs between multi and single.
- Assumed settlement of the assessed quantum is 50% for a multi and 56% for a single.
- Contribution by the group toward the settlement is 55% for multi and 38% for a single.
- Timing of claim payments which is assumed to follow historical trends.

##### Active claims

- The active provision is determined through a combination of case estimates and the relevant cost assumptions used to produce the reported provision. The key assumption that is applied to these case estimates is a certainty weighting, ranging from 10% to 75% depending on the stage of the claim.

<sup>1</sup>These key inputs are provided to the independent actuaries who performed calculations as the basis of the reported provision.

The expected discounted cash outflow of weathertightness provision is as follows:

Settled year ended 30 June (\$million)													
2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total
88	62	11	13	7	7	9	8	7	7	7	6	6	238

## Section D: Working capital and equity

### D5 Provisions (continued)

The significant assumptions above that are most sensitive on surplus or deficit are as follows:

\$million	2019		2018	
	10%	-10%	10%	-10%
	Effect on surplus or deficit		Effect on surplus or deficit	
Amount claimed	(24)	24	(32)	32
Council contribution to settlement	(24)	24	(32)	32
Settlement level award	(24)	24	(32)	32
Discontinuance rate	12	(11)	13	(12)

#### Provision for remediation of contaminated land and closed landfills

The group and the council have provided for the remediation of sites where contamination has been identified and the existing land-use requires remediation. No provision has been made for sites where contamination is not confirmed. This is on the basis that the level of contamination, if any, is unknown and costs cannot be reliably estimated.

Due to the significant degree of estimation included, the group and the council may be subject to further liability. This liability is reflected within unquantifiable contingencies (refer to Note F4).



#### Significant judgements and estimates used in calculating provision for contaminated land and closed landfills are:

- Identified sites where the group and the council hold resource consent. The provision does not include property with unidentified contamination issues or where the current land-use does not require monitoring or remediation.
- Expected future costs based on the expected level of work required to meet each issued resource consent and the current cost of identified monitoring remediation work.
- Expected future costs are inflated using the CPI assumptions provided by New Zealand Treasury.
- Estimated costs are assessed over 30 years, being the average of the resource consent periods.
- The provision assumes there is no change in land use and discharges complying with consent conditions.

#### Financial guarantees

The council is listed as a guarantor to loan arrangements for a number of community organisations where in the event of default, the council is obligated to make loan payments.

Eden Park Trust (EPT) has a loan of \$40 million from ASB Bank Limited (ASB) which falls due for repayment on 30 September 2019. In prior years the council provided a \$40 million financial guarantee of EPT's obligations to ASB in relation to this loan. The guarantee is due to expire on 1 October 2019.

The council has reached agreement with:

- EPT and ASB, for the council to take over the \$40 million loan together with other facilities provided by ASB to EPT on or before 30 September 2019;
- EPT, to consolidate the loans acquired from ASB and existing the council loans into a single facility on commercial terms; and
- EPT, to provide a grant to fund capital expenditure of up to \$9.8 million over a three-year period from 1 July 2019.

The group and the council will retain the provision for the \$40 million until the financial guarantee is terminated. The provision will be replaced by a provision for doubtful debts against the new loan to EPT until the financial circumstances of EPT indicate that the loan is able to be repaid.

## Section D: Working capital and equity

### D5 Provisions (continued)

#### Other provisions

##### Leave entitlement

Included within other provisions is a provision for leave entitlements of \$12 million (2018: \$12 million) for the group and \$11 million (2018: \$11 million) for the council. This provision arose from leave entitlement calculation issues under the Holidays Act 2003 and represents management's best estimate of outstanding remediation payments to current and former staff. The provision contains an element of uncertainty around the anticipated rate of success in tracing former staff, and judgment has been applied in estimating this rate.

##### Legal claims

The group and the council are subject to legal claims. For each claim the likelihood of payment has been assessed and provision recognised where it is probable that the group and the council will be found liable and costs can be reliably estimated. Provisions are determined by legal counsel taking into account claims experience. Material legal claims that are not recognised as provisions are disclosed as contingent liabilities in Note F4 if they meet the criteria for disclosure.

### D6 Ratepayer equity

#### Accounting policy



Ratepayer equity is the Auckland community's interest in the group and the council. Ratepayer equity has been classified into various components to identify those portions of equity held for specific purposes. Contributed equity is the net asset position excluding restricted reserves, at the time the council was formed.

\$million	Group		Auckland Council	
	2019	2018	2019	2018
<b>Contributed equity</b>	<b>26,732</b>	<b>26,732</b>	<b>26,569</b>	<b>26,569</b>
<b>Accumulated funds</b>	<b>1,788</b>	<b>1,667</b>	<b>(1,263)</b>	<b>(997)</b>
<b>Reserves</b>				
<b>Asset revaluation reserves</b>				
Opening balance	9,535	7,545	3,648	2,780
Transferred from/(to) accumulated funds	(55)	(96)	(28)	(68)
Change in fair value recognised during the year	56	2,086	-	936
Closing balance	9,536	9,535	3,620	3,648
<b>Restricted equity</b>				
Opening balance	116	76	111	72
Transfer in/(out) during the year	115	40	118	39
Closing balance	231	116	229	111
<b>Share of associates' reserves</b>				
Opening balance	717	453	-	-
Increase in investment	7	-	725	-
Change in fair value recognised during the year	-	264	-	-
Closing balance	724	717	725	-
<b>Available for sale investment revaluation reserve</b>				
Opening balance	30	23	-	-
Change in fair value recognised during the year	-	7	-	-
Closing balance	30	30	-	-
<b>Cash flow hedge reserve</b>				
Opening balance	5	-	-	-
Change in fair value recognised during the year	(4)	5	-	-
Closing balance	1	5	-	-
<b>Total reserves</b>	<b>10,522</b>	<b>10,403</b>	<b>4,574</b>	<b>3,759</b>
<b>Total ratepayer equity</b>	<b>39,042</b>	<b>38,802</b>	<b>29,880</b>	<b>29,331</b>

## Section D: Working capital and equity

### D6 Ratepayer equity (continued)

#### Capital management

For the purpose of the group and the council's capital management, the group and the council's capital is its ratepayer equity, which comprises contributed equity, reserves and accumulated funds. Equity is represented by net assets. The Local Government Act 2002 (the Act) requires the council to manage the group's revenue, expenses, assets, liabilities and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Ratepayer equity is largely managed as a by-product of managing revenue, expenses, assets, liabilities and general financial dealings.

In addition, the Local Government (Financial Reporting and Prudence) Regulations 2014 sets out a number of benchmarks for assessing whether the council is managing the group's revenue, expenses, assets and liabilities prudently. Refer to Section G for the financial reporting and prudence benchmarks of the group for the year ended 30 June 2019.

The objective of managing the group and the council's capital is to achieve intergenerational equity, which is a principle promoted in the Act and applied by the group and the council. Intergenerational equity requires today's ratepayers to meet the cost of using the group and the council's assets and not expecting them to meet the full cost of long-term assets that will benefit ratepayers in future generations.

In order to achieve this objective, the group and the council have in place asset management plans for major classes of assets detailing renewal and maintenance programmes to minimise the likelihood of ratepayers in future generations being required to meet the costs of deferred renewals and maintenance.

An additional objective of capital management is to ensure that the expenditure identified in the 10-year budget and annual budget are met in the manner set out in these budgets. The Act requires the council to make adequate and effective provision in the 10-year budget and annual budget to meet the expenditure needs identified in those budgets. The Act sets out factors that the council is required to consider when determining the most appropriate sources of funding for each of the group and the council's activities.

The sources and levels of funding are set out in the funding and financial policies of the 10-year budget. The group and the council monitor actual expenditure incurred against the 10-year budget and annual budget.

No changes were made in the objectives, policies or processes for managing capital of the group and the council during the years ended 30 June 2019 and 30 June 2018.



#### Local government disclosures

Restricted equity includes trusts and bequests, targeted rates and reserves, where use of the funds is specified by statute, trust deed or contract. The reserve funds held by the group and the council during the year are as follows:

\$million	Activity	Opening balance	Transfers to reserve	Transfers from reserve	Closing balance	Purpose
<b>Trusts and bequests</b>						
Leys Institute Trust Capital	Local community services	1	-	-	1	Libraries equipment and operation
Trusts related to art activities	Regional community services	1	-	-	1	Purchase of works of art for the Auckland Art Gallery
<b>Total trusts and bequests</b>		<b>2</b>	<b>-</b>	<b>-</b>	<b>2</b>	

## Section D: Working capital and equity

### D6 Ratepayer equity (continued)



#### Local government disclosures (continued)

\$million Targeted rates	Activity	Opening balance	Transfers to reserve	Transfers from reserve	Closing balance	Purpose
City Centre Targeted Rate	Local planning and development	41	22	(13)	50	Development and revitalisation of the city centre
Financial Assistance Targeted Rate	Roads and footpaths, stormwater and wastewater	(1)	-	-	(1)	Financial assistance to the local community
Natural Environment Targeted Rate	Local community services	-	29	(16)	13	To protect the natural environment
Rodney Local Board Transport Targeted Rate	Roads and footpaths and public transport and travel demand management	-	4	(1)	3	Improvement in the transport services
Targeted Rates Open Spaces/Volcanic Cones	Regional community services	3	-	-	3	Purchase of open spaces and maintenance and enhancement of volcanic cones
Water Quality Targeted Rate	Stormwater	-	41	(20)	21	To ensure cleaner beaches, streams and harbours
Accommodation Provider Targeted Rate	Auckland Tourism, Events and Economic Development activity	-	13	(13)	-	To grow the visitor economy, including tourism marketing and events
<b>Total targeted rates</b>		<b>43</b>	<b>109</b>	<b>(63)</b>	<b>89</b>	

\$million Reserves	Activity	Opening balance	Transfers to reserve	Transfers from reserve	Closing balance	Purpose
Araparera Forest Reserve	Roads and footpaths	3	-	(2)	1	Roading development in the Rodney area
Community Recreation and Sport Fund	Local community services	3	-	-	3	Sport and recreational group initiatives
Greenmount Park Development Reserve - ARC	Local community services	3	-	-	3	Conversion of land into a public park and recreation ground
Greenmount Park Development Reserve - AC	Local community services	9	-	-	9	Development of the Styak-Lushington Park
Harbourview / Orangihina UAC Reserve	Local community services	1	-	-	1	Develop the Harbourview-Orangihina Park
Hobsonville Domain Compensation Reserve	Local community services	2	-	-	2	Hobsonville Domain Replacement project
Manukau Harbour Related Recreational Facilities	Local community services	2	-	(1)	1	Improvement of costal recreation opportunities
New Windsor Rd Reserve (Whau LB)	Local planning and development	-	1	-	1	Re-investment in local area
North Shore Holdings Reserve Fund	Regional community services and local planning and development	3	-	-	3	Projects approved by Auckland Transition Agency and the legacy North Shore City Council

## Section D: Working capital and equity

### D6 Ratepayer equity (continued)



#### Local government disclosures (continued)

\$million Reserves (continued)	Activity	Opening balance	Transfers to reserve	Transfers from reserve	Closing balance	Purpose
Off Street Parking Funds	Parking and enforcement	10	-	-	10	Off- street parking initiatives
Panuku Development Auckland Maintenance Reserve	Development Auckland	2	-	(2)	-	Contributions towards cost of maintenance on properties
Papakura Golf Course Reserve	Regional community services	2	-	-	2	Development of Papakura Golf course
Queen Elizabeth II Square Reserve	Local planning and development	26	1	(3)	24	Development and revitalisation of the city centre
Regional Fuel Tax Reserve	Roads and footpaths	-	156	(89)	67	Transport projects in Auckland as approved.
Waste Minimisation Reserve	Waste and environmental services	3	12	(3)	12	Ministry for the Environment levies for waste minimisation initiatives
World Masters Games Reserve	Economic Growth and Visitor Economy	1	-	(1)	-	Promotion of amateur sports
Zoo Conservation Fund	Regional facilities	1	-	-	1	Supporting conservation efforts in the wild
<b>Total reserves</b>		<b>71</b>	<b>170</b>	<b>(101)</b>	<b>140</b>	
<b>Total restricted equity</b>		<b>116</b>	<b>279</b>	<b>(164)</b>	<b>231</b>	

## Section E: Financial risk management

This section provides information on how the Auckland Council Group and Auckland Council are exposed to a variety of financial risks and how these risks are managed.

The council's core policies relating to financial risk are contained in the Treasury Management Policy (TMP). The TMP meets the requirements of the LGA 2002 and sets out the council's policies on how it will manage its key financial risks including risks associated with borrowing, interest rate risk, foreign exchange risk, counterparty credit risk, liquidity risk and investment risk.

Any changes to the TMP require the approval of the Governing Body. More detailed treasury policies are contained in the Treasury Operating Manual which must be consistent with the TMP and is approved by the Treasury Management Steering Group.

The significant financial risks to the group and the council are set out below. Within each subsection a definition and explanation of the risk is detailed (risk definition) and then an explanation of how council manages each financial risk (risk management).

The council manages these risks for all group entities, except for Ports of Auckland Limited which manages its own risks in accordance with their policies.

The following are the financial risks significant to the group and the council:

- E1 Interest rate risk
- E2 Credit risk
- E3 Foreign exchange risk
- E4 Liquidity risk



## Section E: Financial risk management

### E1 Interest rate risk

#### Risk definition

Interest rate risk is the risk that Auckland Council Group (the group) and Auckland Council (the council) are exposed to adverse changes in interest rates which may result in net financing costs exceeding annual budget or 10-year budget forecasts. The group and the council are exposed to interest rate risk on all debt obligations and cash investments including amounts on-lent to council-controlled organisations.

#### Risk management

The group seeks to limit interest rate risk by:

- proactively managing interest rates through the use of a mix of fixed and floating interest rate exposures; and
- managing interest rates on both current and forecast debt.

The group manages interest rate risk on a portfolio basis. By proactively managing interest rates on a portfolio basis the council acknowledges the distinction between financing risk and interest rate risk and the different dynamics that impact these two markets.

Through proactively managing interest rate risk, the group intends over the long term to:

- minimise volatility and provide certainty of interest costs especially over the first three years of a long-term plan. This reduces the likelihood that adverse movements in interest rates will materially impact the operating surplus;
- minimise the cost of borrowings within acceptable risk parameters; and
- manage the divergence between the group's effective interest rate and prevailing market interest rates.

Mechanisms used to manage interest rate risk are:

- interest rate swaps, including forward start swaps to hedge the base rate on anticipated borrowings;
- matching the interest rate risk profile of the group and the council's financial assets and liabilities; and
- fixing rates through fixed rate borrowings or interest rate hedging instruments to fix rates on floating rate borrowings.

## Section E: Financial risk management

### E1 Interest rate risk (continued)

The group and the council measure the risk through sensitivity analysis which is based on possible movements in the NZD interest rate curve, with all other variables held constant, measured as a basis points movement. The impact on potential surplus or deficit and equity (excluding accumulated funds) calculated using the group and the council's financial instrument exposures at balance date are as follows:

\$million	2019				2018			
	-100bps/-1%		+100bps/+1%		-100bps/-1%		+100bps/+1%	
	Surplus/ (deficit)	Equity	Surplus/ (deficit)	Equity	Surplus/ (deficit)	Equity	Surplus/ (deficit)	Equity
<b>Group</b>								
Cash and cash equivalents and term deposits	(3)	-	3	-	(6)	-	6	-
Derivative financial instruments <sup>1</sup>	(656)	(4)	562	4	(223)	(6)	202	5
Fixed rate borrowings (repricing within next 12 months)	5	-	(5)	-	4	-	(4)	-
Floating rate borrowings	31	-	(31)	-	25	-	(25)	-
Other financial assets	(1)	-	1	-	(2)	-	2	-
<b>Total sensitivity to interest rate risk</b>	<b>(624)</b>	<b>(4)</b>	<b>530</b>	<b>4</b>	<b>(202)</b>	<b>(6)</b>	<b>181</b>	<b>5</b>
\$million	2019				2018			
	-100bps/-1%		+100bps/+1%		-100bps/-1%		+100bps/+1%	
	Surplus/ (deficit)	Equity	Surplus/ (deficit)	Equity	Surplus/ (deficit)	Equity	Surplus/ (deficit)	Equity
<b>Auckland Council</b>								
Cash and cash equivalents and term deposits	(2)	-	2	-	(6)	-	6	-
Derivative financial instruments <sup>1</sup>	(655)	-	560	-	(148)	-	133	-
Loans to related parties	(18)	-	18	-	(14)	-	14	-
Fixed rate borrowings (repricing within next 12 months)	5	-	(5)	-	4	-	(4)	-
Floating rate borrowings	28	-	(28)	-	22	-	(22)	-
Other financial assets	(1)	-	1	-	(2)	-	2	-
<b>Total sensitivity to interest rate risk</b>	<b>(643)</b>	<b>-</b>	<b>548</b>	<b>-</b>	<b>(144)</b>	<b>-</b>	<b>129</b>	<b>-</b>

<sup>1</sup> The sensitivity for derivatives (excluding basis swaps) has been calculated using a derivative valuation model based on a parallel shift in interest rates of plus and minus 100 basis points.

Basis swaps have been used to partially hedge the basis risk on cross-currency interest rate swaps. The group and the council enter into basis swaps to lower funding costs.

Basis swaps are sensitive to movements in the NZD/USD basis spread. The impact to the group and the council of an increase in the basis spread of 10 basis points is a \$13 million loss while a decrease in the basis spread of 10 basis points is a \$13 million gain. The basis sensitivity on this spread was calculated by taking the spot basis spread curve and moving this by plus and minus 10 basis points.

### E2 Credit risk

#### Risk definition

Credit risk is the risk that a third party will default on its obligation to the group and the council, causing the group and the council to incur a loss. Credit risk arises from cash and cash equivalents, deposits with banks, credit exposures to receivables, related party loans, financial guarantees as well as derivative financial instruments and other financial assets.

The group and the council's maximum credit risk exposure for each class of financial assets is the carrying amount of these financial assets which is presented in Note C4 under the category of financial instruments.

## Section E: Financial risk management

### E2 Credit risk (continued)

#### Risk management

The group seeks to limit counterparty exposure by:

- only transacting with those counterparties with acceptable credit ratings;
- avoiding concentrations of credit exposure to any one counterparty by spreading exposures amongst a number of counterparties;
- executing Credit Support Annex's (CSAs) with selected counterparties to manage derivative risk; and
- having netting provisions in International Swaps and Derivatives Association (ISDA) arrangements.

Acceptable credit standings are determined with reference to long term credit ratings published by S&P Global Ratings (or similar international credit rating agency).

The group and the council are not exposed to material concentrations of credit risk around rates and other receivables from non-exchange transactions as there is a large number of ratepayers and customers, and the council has a statutory right to recover outstanding funds under the Local Government (Rating) Act 2002. Refer to Note D2 for the breakdown and ageing profile of receivables.

The council identifies concentration risk in relation to loans to related parties based on the capital programme of the related parties within the 10-year budget. Loans to Auckland Transport and Watercare amounted to \$497 million and \$1,754 million, respectively (2018: \$503 million and \$1,471 million, respectively).

#### *Other exposures*

In addition to the above credit exposures, the group and the council are exposed to financial guarantees provided to third parties. At 30 June 2019, total financial guarantees for the group are \$7.2 billion (2018: \$6.2 billion) and \$7.2 billion for the council (2018: \$6.4 billion). Certain guarantees have been provided for as disclosed in the provisions note. Refer to Notes D5 and F4 for further information.

#### *Rated counterparties*

At balance date, \$0.8 billion (2018: \$1.1 billion) of assets with credit risk held by the group and \$0.7 billion (2018: \$2.5 billion) of assets with credit risk held by the council have a S&P Global Ratings rating (or equivalent) of single A or better.

There have been no defaults by any of the group or the council's rated counterparties.

#### *Unrated counterparties*

With the exception of certain community loans, the council cannot invest with unrated counterparties. In the year to 30 June 2019 the group and the council have no community loan counterparties that defaulted (2018: nil).

#### *Rates and other receivables*

Receivables mainly arise from the group and the council's statutory functions, as such there are no procedures in place to monitor or report the credit quality of receivables with reference to internal and external credit ratings.

#### *Loans to related parties at amortised cost*

The group and the council use three categories of internal credit risk ratings for loans to related parties which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are determined through incorporating both qualitative and quantitative information that builds on information from external credit rating companies, such as S&P Global Ratings, information specific to the counterparty and other external information that could affect the counterparty's behaviour.

The group and the council compute expected credit losses for this group of financial assets using the probability of default approach. In calculating the expected credit loss rates, the group and the council considers implied probability of default from external credit rating agencies where available and historical loss rates for each category of counterparty and adjusts for forward looking macroeconomic data such as central bank base rates.

## Section E: Financial risk management

### E2 Credit risk (continued)

A summary of the group and the council's internal grading categories used in the computation of the group's expected credit loss model for loans to related parties is as follows:

Category	Definition of category	Basis for recognition of expected credit loss provision	Basis for calculating interest revenue
Grade I	Borrowers have a low risk of default and a strong capacity to meet contractual cash flows	12-month expected credit losses	Gross carrying amount
Grade II	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due.	Lifetime expected credit losses	Gross carrying amount
Grade III	Interest and/or principal repayments are 60 days past due	Lifetime expected credit losses	Amortised cost of carrying amount (net of credit allowance)

There are no significant changes to estimation techniques or assumptions made during the reporting period.

The group and the council made an assessment of the loss allowance provision for loans to related parties as at 30 June 2019. The financial effects are not material and the balances are not adjusted.

The gross carrying amount of loans to related parties measured at amortised cost as at 30 June 2019 are disclosed in Note C4.

#### *Financial guarantees*

The group and the council compute expected credit losses for financial guarantees using the probability of default approach. In determining expected credit losses for financial guarantees, the group and the council consider events such as breach of loan covenants and default on instalment payments, and determine that significant increase in credit risk occurs when there are changes in the risk that the specified borrower will default on the contract.

In calculating the expected credit loss rates, the group and the council consider implied probability of default from external rating agencies where available and historical loss rates for each category of counterparty and adjusts for forward looking macroeconomic data such as central bank base rates.

The group and the council have assessed expected credit loss for financial guarantees as at 30 June 2019 and the results are disclosed in Note D5 and F4.

## Section E: Financial risk management

### E3 Foreign exchange risk

#### Risk definition

Foreign exchange risk is the risk that costs materially exceed budget due to adverse movements in foreign exchange rates.

The group is exposed to foreign exchange risk when it purchases equipment and services denominated in a foreign currency or has borrowings denominated in a foreign currency.

#### Risk management

The group seeks to limit foreign exchange risk by:

- hedging exposures on material foreign currency denominated capital and operating expenditure (foreign exchange exposure is recognised when the expenditure has been approved and a contract is expected to follow); and
- hedging all foreign currency exposure on borrowings denominated in a foreign currency at the time of execution of the borrowing.

The group does not receive foreign currency revenue in its normal course of business.

#### Exposure

The council has foreign currency denominated borrowings of \$3,794 million at 30 June 2019 (30 June 2018: \$3,854 million) that are exposed to foreign exchange risk. The percentage of foreign currency denominated borrowings for each currency is shown below:

	Australian Dollar	Swiss Franc	Euro	Norwegian Krone	Total
2019	21%	15%	53%	11%	100%
2018	21%	15%	53%	11%	100%

Refer to Note C1 for the total foreign currency denominated borrowings of the group and the council. Refer to Note C2 for the derivative financial instruments that hedge the foreign exchange risk on these borrowings.

At 30 June 2019, the group and the council do not have remaining material exposure to foreign exchange risk since all foreign currency denominated borrowings and material purchases are hedged (2018: none).

### E4 Liquidity risk

#### Risk definition

Liquidity risk is the risk that the group is unable to meet its funding obligations as they fall due.

The group is exposed to liquidity risk whenever it refinances existing debt or when it is contractually committed to make cash payments.

#### Risk management

The group seeks to limit liquidity risk by:

- maintaining sufficient unutilised committed funding facilities;
- ensuring investments are short term and liquid in nature; and
- maintaining longer term cash flow forecasts to recognise potential future financing pressures early, allowing time for a financing strategy to be planned and implemented.

## Section E: Financial risk management

### E4 Liquidity risk (continued)

In addition, the group seeks to limit financing risk by:

- spreading financing over a range of maturities, to minimise the risk of large concentrations of debt having to be refinanced in periods where credit margins are high for reasons beyond the group's control. This includes the spreading of short-term debt where practical and economic;
- avoiding concentrations of exposure to any one borrowing market by having financing options across a range of markets;
- maintaining a mixture of short-term facilities (which generally have lower credit margins and flexibility) and long-term facilities to achieve an effective funding mix, balancing the requirements of cost minimisation and limiting re-financing risk;
- not giving financial covenants in respect of any borrowing with the exception of a most favoured lender clause and those already given to the Local Government Funding Agency (LGFA);
- maintaining an AA/Aa2 credit rating;
- complying with borrowing covenants imposed by the LGFA and borrowing thresholds imposed by credit rating agencies; and
- reviewing funding principles every three years in line with the 10-year budget.

The group and the council have undrawn bank facilities of \$1.3 billion (2018: \$1.4 billion) that can be drawn at any time and overdraft facilities of \$19 million (2018: \$14 million). The undrawn bank facilities will mature between July 2019 and May 2024. This includes the council's syndicated committed cash advance facilities of \$1.2 billion (2018: \$1.0 billion).

The tables on the following pages summarise the group and the council's maturity profile of financial liabilities and financial assets, which are readily saleable or expected to generate cash inflows to meet the cash outflows of the financial liabilities. The amounts disclosed are undiscounted contractual cash flows which include interest payable.

## Section E: Financial risk management

### E4 Liquidity risk (continued)

Group	2019							
\$million	Carrying amount	On demand	<1 year	1-2 years	2-5 years	5-10 years	>10 years	Total contractual cash flows
<b>Non-derivative financial assets</b>								
Cash and cash equivalents	294	292	2	-	-	-	-	294
Receivables (excluding GST receivables and prepayments)	462	37	399	22	5	-	-	463
Other financial assets	187	46	57	13	30	27	23	196
<b>Total non-derivative financial assets</b>	<b>943</b>	<b>375</b>	<b>458</b>	<b>35</b>	<b>35</b>	<b>27</b>	<b>23</b>	<b>953</b>
<b>Derivative financial assets</b>								
Derivative financial assets net settled	71	-	26	21	29	8	-	84
Derivative financial assets gross settled <sup>1</sup>	373	-	(24)	(25)	(46)	64	(12)	(43)
Inflows	-	-	154	59	447	2,660	347	3,667
Outflows	-	-	(178)	(84)	(493)	(2,596)	(359)	(3,710)
<b>Total derivative financial assets</b>	<b>444</b>	<b>-</b>	<b>2</b>	<b>(4)</b>	<b>(17)</b>	<b>72</b>	<b>(12)</b>	<b>41</b>
<b>Total financial assets</b>	<b>1,387</b>	<b>375</b>	<b>460</b>	<b>31</b>	<b>18</b>	<b>99</b>	<b>11</b>	<b>994</b>
<b>Non-derivative financial liabilities</b>								
Bank overdraft	3	3	-	-	-	-	-	3
Payables and accruals (excluding income received in advance)	820	118	681	2	-	-	-	801
Secured borrowings <sup>2</sup>	8,463	-	1,377	917	2,540	4,112	619	9,565
Unsecured borrowings	495	-	25	234	129	98	126	612
Financial guarantees <sup>3</sup>	41	7,156	-	-	-	-	-	7,156
<b>Total non-derivative financial liabilities</b>	<b>9,822</b>	<b>7,277</b>	<b>2,083</b>	<b>1,153</b>	<b>2,669</b>	<b>4,210</b>	<b>745</b>	<b>18,137</b>
<b>Derivative financial liabilities</b>								
Derivative financial liabilities net settled	1,777	-	185	207	626	754	167	1,939
Derivative financial liabilities gross settled <sup>1</sup>	71	-	3	(6)	39	56	1	93
Inflows	-	-	(138)	(37)	(269)	(313)	(186)	(943)
Outflows	-	-	141	31	308	369	187	1,036
<b>Total derivative financial liabilities</b>	<b>1,848</b>	<b>-</b>	<b>188</b>	<b>201</b>	<b>665</b>	<b>810</b>	<b>168</b>	<b>2,032</b>
<b>Total financial liabilities</b>	<b>11,670</b>	<b>7,277</b>	<b>2,271</b>	<b>1,354</b>	<b>3,334</b>	<b>5,020</b>	<b>913</b>	<b>20,169</b>
<b>Net contractual cash flows</b>		<b>(6,902)</b>	<b>(1,811)</b>	<b>(1,323)</b>	<b>(3,316)</b>	<b>(4,921)</b>	<b>(902)</b>	<b>(19,175)</b>

<sup>1</sup> Includes both forward foreign exchange contracts and cross-currency interest rate swaps; cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.

<sup>2</sup> Cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.

<sup>3</sup> Based on the maturity profiles above, Auckland Council is also exposed to liquidity risk as a guarantor of all of the LGFA's borrowings. The information on the LGFA borrowings is disclosed in Note F4. This guarantee becomes callable in the event of the LGFA failing to pay its borrowings when they fall due. However, this is not considered a significant risk and it is not anticipated that the guarantee will become payable.

## Section E: Financial risk management

### E4 Liquidity risk (continued)

Group	2018							Total contractual cash flows
	Carrying amount	On demand	<1 year	1-2 years	2-5 years	5-10 years	>10 years	
<b>Non-derivative financial assets</b>								
Cash and cash equivalents	618	619	1	-	-	-	-	620
Receivables (excluding GST receivables and prepayments)	362	52	308	2	-	-	-	362
Other financial assets	272	46	153	8	30	27	23	287
<b>Total non-derivative financial assets</b>	<b>1,252</b>	<b>717</b>	<b>462</b>	<b>10</b>	<b>30</b>	<b>27</b>	<b>23</b>	<b>1,269</b>
<b>Derivative financial assets</b>								
Derivative financial assets net settled	42	-	20	14	9	6	4	53
Derivative financial assets gross settled <sup>1</sup>	247	-	(43)	(52)	(203)	(14)	(33)	(345)
Inflows		-	106	40	119	2,732	359	3,356
Outflows		-	(149)	(92)	(322)	(2,746)	(392)	(3,701)
<b>Total derivative financial assets</b>	<b>289</b>	<b>-</b>	<b>(23)</b>	<b>(38)</b>	<b>(194)</b>	<b>(8)</b>	<b>(29)</b>	<b>(292)</b>
<b>Total financial assets</b>	<b>1,541</b>	<b>717</b>	<b>439</b>	<b>(28)</b>	<b>(164)</b>	<b>19</b>	<b>(6)</b>	<b>977</b>
<b>Non-derivative financial liabilities</b>								
Bank overdraft	8	7	1	-	-	-	-	8
Payables and accruals (excluding income received in advance)	650	65	586	2	-	-	-	653
Secured borrowings <sup>2</sup>	8,313	-	993	1,077	2,325	4,420	881	9,696
Unsecured borrowings	519	-	159	68	182	101	133	643
Financial guarantees <sup>3</sup>	41	6,220	-	-	-	-	-	6,220
<b>Total non-derivative financial liabilities</b>	<b>9,531</b>	<b>6,292</b>	<b>1,739</b>	<b>1,147</b>	<b>2,507</b>	<b>4,521</b>	<b>1,014</b>	<b>17,220</b>
<b>Derivative financial liabilities</b>								
Derivative financial liabilities net settled	910	-	180	164	377	252	30	1,003
Derivative financial liabilities gross settled <sup>1</sup>	58	-	(2)	6	53	48	41	146
Inflows		-	(50)	(133)	(322)	(378)	(461)	(1,344)
Outflows		-	48	139	375	426	502	1,490
<b>Total derivative financial liabilities</b>	<b>968</b>	<b>-</b>	<b>178</b>	<b>170</b>	<b>430</b>	<b>300</b>	<b>71</b>	<b>1,149</b>
<b>Total financial liabilities</b>	<b>10,499</b>	<b>6,292</b>	<b>1,917</b>	<b>1,317</b>	<b>2,937</b>	<b>4,821</b>	<b>1,085</b>	<b>18,369</b>
<b>Net contractual cash flows</b>		<b>(5,575)</b>	<b>(1,478)</b>	<b>(1,345)</b>	<b>(3,101)</b>	<b>(4,802)</b>	<b>(1,091)</b>	<b>(17,392)</b>

<sup>1</sup> Includes both forward foreign exchange contracts and cross-currency interest rate swaps; cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.

<sup>2</sup> Cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.

<sup>3</sup> Based on the maturity profiles above, Auckland Council is also exposed to liquidity risk as a guarantor of all of the LGFA's borrowings. The information on the LGFA borrowings is disclosed in Note F4. This guarantee becomes callable in the event of the LGFA failing to pay its borrowings when they fall due. However, this is not considered a significant risk and it is not anticipated that the guarantee will become payable.



## Section E: Financial risk management

### E4 Liquidity risk (continued)

Auckland Council	2019							
\$million	Carrying amount	On demand	<1 year	1-2 years	2-5 years	5-10 years	>10 years	Total contractual cash flows
<b>Non-derivative financial assets</b>								
Cash and cash equivalents	205	206	-	-	-	-	-	206
Receivables (excluding prepayments)	283	-	283	-	-	-	-	283
Other financial assets	2,377	-	91	1,755	139	208	728	2,921
<b>Total non-derivative financial assets</b>	<b>2,865</b>	<b>206</b>	<b>374</b>	<b>1,755</b>	<b>139</b>	<b>208</b>	<b>728</b>	<b>3,410</b>
<b>Derivative financial assets</b>								
Derivative financial assets net settled	70	-	26	21	29	8	-	84
Derivative financial assets gross settled <sup>1</sup>	381	-	(24)	(25)	(46)	64	(12)	(43)
Inflows	-	-	154	59	447	2,660	347	3,667
Outflow	-	-	(178)	(84)	(493)	(2,596)	(359)	(3,710)
<b>Total derivative financial assets</b>	<b>451</b>	<b>-</b>	<b>2</b>	<b>(4)</b>	<b>(17)</b>	<b>72</b>	<b>(12)</b>	<b>41</b>
<b>Total financial assets</b>	<b>3,316</b>	<b>206</b>	<b>376</b>	<b>1,751</b>	<b>122</b>	<b>280</b>	<b>716</b>	<b>3,451</b>
<b>Non-derivative financial liabilities</b>								
Payables and accruals (excluding income received in advance)	660	-	660	-	-	-	-	660
Secured borrowings <sup>2</sup>	8,463	-	1,377	917	2,540	4,112	619	9,565
Financial guarantees <sup>3</sup>	41	7,156	-	-	-	-	-	7,156
<b>Total non-derivative financial liabilities</b>	<b>9,164</b>	<b>7,156</b>	<b>2,037</b>	<b>917</b>	<b>2,540</b>	<b>4,112</b>	<b>619</b>	<b>17,381</b>
<b>Derivative financial liabilities</b>								
Derivative financial liabilities net settled	1,767	-	181	204	623	753	167	1,928
Derivative financial liabilities gross settled <sup>1</sup>	71	-	3	(6)	39	56	1	93
Inflows	-	-	(125)	(37)	(269)	(313)	(186)	(930)
Outflows	-	-	128	31	308	369	187	1,023
<b>Total derivative financial liabilities</b>	<b>1,838</b>	<b>-</b>	<b>184</b>	<b>198</b>	<b>662</b>	<b>809</b>	<b>168</b>	<b>2,021</b>
<b>Total financial liabilities</b>	<b>11,002</b>	<b>7,156</b>	<b>2,221</b>	<b>1,115</b>	<b>3,202</b>	<b>4,921</b>	<b>787</b>	<b>19,402</b>
<b>Net contractual cash flows</b>		<b>(6,950)</b>	<b>(1,845)</b>	<b>636</b>	<b>(3,080)</b>	<b>(4,641)</b>	<b>(71)</b>	<b>(15,951)</b>

<sup>1</sup> Includes both forward foreign exchange contracts and cross-currency interest rate swaps; cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.

<sup>2</sup> Cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.

<sup>3</sup> Based on the maturity profiles above, Auckland Council is also exposed to liquidity risk as a guarantor of all of the LGFA's borrowings. The information on the LGFA borrowings is disclosed in Note F4. This guarantee becomes callable in the event of the LGFA failing to pay its borrowings when they fall due. However, this is not considered a significant risk and it is not anticipated that the guarantee will become payable.

## Section E: Financial risk management

### E4 Liquidity risk (continued)

Auckland Council		2018						
\$million	Carrying amount	On demand	<1 year	1-2 years	2-5 years	5-10 years	>10 years	Total contractual cash flows
<b>Non-derivative financial assets</b>								
Cash and cash equivalents	584	586	-	-	-	-	-	586
Receivables (excluding prepayments)	212	-	212	-	-	-	-	212
Other financial assets	2,185	-	462	283	541	867	1,003	3,158
<b>Total non-derivative financial assets</b>	<b>2,981</b>	<b>586</b>	<b>674</b>	<b>283</b>	<b>541</b>	<b>867</b>	<b>1,003</b>	<b>3,956</b>
<b>Derivative financial assets</b>								
Derivative financial assets net settled	35	-	17	13	7	5	4	45
Derivative financial assets gross settled <sup>1</sup>	245	-	(48)	(46)	(202)	(14)	(33)	(343)
Inflows	-	-	64	145	127	2,732	359	3,427
Outflow	-	-	(112)	(191)	(329)	(2,746)	(392)	(3,770)
<b>Total derivative financial assets</b>	<b>280</b>	<b>-</b>	<b>(31)</b>	<b>(33)</b>	<b>(195)</b>	<b>(9)</b>	<b>(29)</b>	<b>(298)</b>
<b>Total financial assets</b>	<b>3,261</b>	<b>586</b>	<b>644</b>	<b>250</b>	<b>346</b>	<b>858</b>	<b>974</b>	<b>3,658</b>
<b>Non-derivative financial liabilities</b>								
Payables and accruals (excluding income received in advance)	604	-	607	-	-	-	-	607
Secured borrowings <sup>2</sup>	8,313	-	993	1,077	2,325	4,420	881	9,696
Financial guarantees <sup>3</sup>	41	6,362	-	-	-	-	-	6,362
<b>Total non-derivative financial liabilities</b>	<b>8,958</b>	<b>6,362</b>	<b>1,600</b>	<b>1,077</b>	<b>2,325</b>	<b>4,420</b>	<b>881</b>	<b>16,665</b>
<b>Derivative financial liabilities</b>								
Derivative financial liabilities net settled	678	-	132	128	294	174	18	746
Derivative financial liabilities gross settled <sup>1</sup>	58	-	(2)	6	53	49	41	146
Inflows	-	-	(35)	(133)	(322)	(378)	(461)	(1,329)
Outflows	-	-	33	139	375	426	502	1,475
<b>Total derivative financial liabilities</b>	<b>736</b>	<b>-</b>	<b>129</b>	<b>134</b>	<b>347</b>	<b>222</b>	<b>59</b>	<b>892</b>
<b>Total financial liabilities</b>	<b>9,694</b>	<b>6,362</b>	<b>1,729</b>	<b>1,211</b>	<b>2,672</b>	<b>4,642</b>	<b>940</b>	<b>17,557</b>
<b>Net contractual cash flows</b>		<b>(5,776)</b>	<b>(1,086)</b>	<b>(961)</b>	<b>(2,326)</b>	<b>(3,784)</b>	<b>33</b>	<b>(13,899)</b>

<sup>1</sup> Includes both forward foreign exchange contracts and cross-currency interest rate swaps; cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.

<sup>2</sup> Cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.

<sup>3</sup> Based on the maturity profiles above, Auckland Council is also exposed to liquidity risk as a guarantor of all of the LGFA's borrowings. The information on the LGFA borrowings is disclosed in Note F4. This guarantee becomes callable in the event of the LGFA failing to pay its borrowings when they fall due. However, this is not considered a significant risk and it is not anticipated that the guarantee will become payable.

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## Section F: Other disclosures

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This section provides other financial information that will enhance clarity and understanding of this financial report. Required disclosures such as the remuneration of Auckland’s mayor, councillors and local board members are presented under “related party transactions”.

The notes included in this section are as follows:

- F1 Non-current assets held for sale
- F2 Deferred tax assets and liabilities
- F3 Investment in other entities
- F4 Contingencies, commitments and subsequent events
- F5 Related party transactions
- F6 Reconciliation of surplus/(deficit) after income tax to net cash inflow from operating activities
- F7 Regional fuel tax

## Section F: Other disclosures

### F1 Non-current assets held for sale

#### Accounting policy



Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell.

Impairment losses are recognised in the surplus or deficit, if any.

Increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

\$million	Group		Auckland Council	
	2019	2018	2019	2018
Land and buildings	30	33	3	33
Other	29	2	-	-
<b>Non-current assets held for sale</b>	<b>59</b>	<b>35</b>	<b>3</b>	<b>33</b>

### F2 Deferred tax assets and liabilities

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

\$million	Group		Auckland Council	
	2019	2018	2019	2018
Deferred tax assets	10	19	-	-
Deferred tax liabilities	(1,476)	(1,442)	-	-
<b>Net deferred tax liabilities</b>	<b>(1,466)</b>	<b>(1,423)</b>	<b>-</b>	<b>-</b>

The movement in Auckland Council Group's deferred tax assets/liabilities is as follows:

\$million	Property, plant and equipment	Intangible assets	Other	Tax losses carried forward	Total
Opening balance	(1,728)	(3)	51	257	(1,423)
Credited/(charged) to surplus/(deficit)	(51)	-	(65)	59	(57)
Credited/(charged) to other comprehensive revenue	12	-	2	-	14
<b>Balance at 30 June 2019</b>	<b>(1,767)</b>	<b>(3)</b>	<b>(12)</b>	<b>316</b>	<b>(1,466)</b>
Opening balance	(1,411)	(3)	49	253	(1,112)
Credited/(charged) to surplus/(deficit)	(42)	-	4	4	(34)
Credited/(charged) to other comprehensive revenue	(275)	-	(2)	-	(277)
<b>Balance at 30 June 2018</b>	<b>(1,728)</b>	<b>(3)</b>	<b>51</b>	<b>257</b>	<b>(1,423)</b>

## Section F: Other disclosures

### F3 Investment in other entities

\$million	Group		Auckland Council	
	2019	2018	2019	2018
Investment in subsidiaries	-	-	19,731	20,630
Investment in associates	1,488	1,427	1,487	-
Investment in joint ventures	362	324	362	322
<b>Total Investment in other entities</b>	<b>1,850</b>	<b>1,751</b>	<b>21,580</b>	<b>20,952</b>

#### Investment in subsidiaries

Investment in subsidiaries includes the investment in council-controlled organisations (CCOs) (refer to Section H for list of CCOs) and Ports of Auckland Limited (POAL).

#### Investment in joint ventures and associates

##### Accounting policy



Investment in associates and joint ventures is accounted for using the equity method in Auckland Council Group (the group) and Auckland Council (the council) financial statements. The investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the share of the surplus or deficit of the associate or joint venture after the date of acquisition. Distributions received reduce the carrying amount of the investment. Where necessary, adjustments are made to the financial statements of associates and joint ventures to bring their accounting policies in line with the group.

The group and the council hold investments in the following joint ventures and associates as at 30 June 2019:

Entity	Held by	Relationship	Interest		Nature
			2019	2018	
City Rail Link Limited	Council	Joint venture	50.00%	50.00%	Design and construction of CRL
North Tugz Limited	Group	Joint venture	50.00%	50.00%	Towage and pilotage services
PortConnect Limited	Group	Joint venture	50.00%	50.00%	Online cargo management system
Waste Disposal Services	Council	Joint venture	50.00%	50.00%	Landfill business
Haumaru Housing Limited Partnership (Haumaru)	Council	Joint venture	49.00%	49.00%	Social rental housing for older people in Auckland
New Zealand Food Innovation Auckland Limited	Group	Joint venture	0.00%	33.30%	Science and Technology Resources centre
Auckland International Airport Limited (AIAL)	Council	Associate	21.99%	22.15%	Airport
Longburn Intermodal Freight Hub Limited	Group	Associate	33.30%	33.30%	Inland freight distribution hub
Tamaki Redevelopment Company Limited	Council	Associate	41.00%	41.00%	Property development
New Lynn Central Limited Partnership	Group	Associate	42.00%	42.00%	Property development

On 28 June 2019, the group disposed all its interest in New Zealand Food Innovation Auckland Limited.

#### Amalgamation of Auckland Council Investments Limited (ACIL)

On 2 July 2018, ACIL was amalgamated into the council resulting in a transfer of its shares in POAL and Auckland International Airport Limited (AIAL) to the council. The shares in POAL and other net assets of ACIL were transferred at their carrying value while the shares in AIAL were transferred at the equity accounted balance at 30 June 2018. Prior to the amalgamation, the council recognised its investment in ACIL at cost.

## Section F: Other disclosures

### F3 Investment in other entities (continued)

The amalgamation resulted in an increase in the net assets of the council of \$817 million, made up as follows:

\$million	2019
Investment in Ports of Auckland Limited	330
Investment in Auckland International Airport Limited	1,427
Other net assets	18
Less: investment in Auckland Council Investments Limited	(958)
<b>Total</b>	<b>817</b>

ACIL was deregistered on 22 November 2018 and the transaction was settled by returning both equity and reserves of \$99 million and \$718 million respectively.

All associates and joint ventures have a balance date of 30 June and are resident in New Zealand.

#### Auckland International Airport Limited (AIAL)

The group and the council's significant investment is AIAL. The key financial information is as follows:

\$million	Total assets	Total liabilities	Gross revenue	Net profit after tax	Percentage of interest held
<b>As at 30 June 2019</b>					
Auckland International Airport Limited	8,697	2,664	743	524	21.99%
<b>As at 30 June 2018</b>					
Auckland International Airport Limited	8,197	2,515	684	650	22.15%

The fair value of the group and the council's investment in AIAL is \$2,597 million (2018: \$1,880 million).

The amounts presented are gross amounts taken directly from AIAL's financial statements, and do not include measurement differences that relate to "for profit" entities.

#### City Rail Link Limited

City Rail Link Limited (CRLL) is a Crown entity co-funded by the Crown and the council (the Sponsors) for the purpose of designing and constructing an underground rail line linking Britomart and the city centre with the existing western line near Mt. Eden. The council is committed to funding 50 per cent of this \$4.4 billion project. The key financial information is as follows:

\$million	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Expenses
<b>As at 30 June 2019</b>						
City Rail Link Limited	14	707	27	-	4	54
<b>As at 30 June 2018</b>						
City Rail Link Limited	59	567	12	-	4	12

As at 30 June 2019, the group and the council's investment in CRLL amounted to \$347 million (2018: \$307 million) which includes the full year funding paid to CRLL by the council of \$65 million (2018: \$93 million).

#### Haumaru Housing Limited Partnership

Auckland Council has signed a funding agreement with Haumaru effective 1 July 2017, whereby the council will provide total funding of \$30 million over the period from 1 July 2017 to 30 June 2025. The funding provided will be used by Haumaru solely for capital renewals of the Housing for Older People portfolio.

#### Contingent liabilities of associates and joint ventures

Contingent liabilities of the group and the council's associates and joint ventures are not significant to the group and the council.

## Section F: Other disclosures

### F4 Contingencies, commitments and subsequent events

#### CONTINGENCIES

##### Accounting policy



The group and the council do not recognise contingent liabilities and contingent assets in the financial statements due to their uncertainty or the fact that they cannot be reliably measured. Disclosures are provided for as follows:

- Contingent liabilities are disclosed unless the possibility that these will crystallise is remote.
- Contingent assets are only disclosed when it is probable that they will crystallise.

Contingent liabilities and assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

#### Quantifiable contingent liabilities

\$million	Group		Auckland Council	
	2019	2018	2019	2018
Guarantees and indemnities	7,115	6,180	7,115	6,321
Uncalled capital	2	2	2	2
Legal proceedings and disputes	61	9	61	9
<b>Total quantifiable contingent liabilities</b>	<b>7,178</b>	<b>6,191</b>	<b>7,178</b>	<b>6,332</b>

#### Guarantees and indemnities

New Zealand Local Government Funding Agency (LGFA)

The council is a shareholder and guarantor of the LGFA. The LGFA was incorporated in December 2011 with the purpose of providing debt funding to local authorities in New Zealand and it has a current credit rating from S&P Global Ratings of AA+ (Stable).

#### As a guarantor

The council is one of 52 local authority guarantors of the LGFA. The LGFA's loans to local authorities are \$9.5 billion (2018: \$8.3 billion), of which the group and the council have borrowed \$2.4 billion (2018: \$2.1 billion). As a result, the group and the council's cross-guarantee on LGFA's loans to other local authorities is \$7.1 billion (2018: \$6.2 billion).

PBE Accounting Standards require the group and the council to initially recognise the guarantee liability by applying the 12-month expected credit loss model (as fair value could not be reliably measured) and subsequently at the higher of the provision for impairment at balance date determined by the expected credit loss model and the amount initially recognised. At the end of financial year, the group and the council have assessed the 12-month expected credit losses of the guarantee liability, based on market information of the underlying assets held by the LGFA. The estimated 12-month expected credit losses are immaterial due to the extremely low probability of default by the LGFA in the next 12 months, and therefore, the group and the council have not recognised a liability.

#### Uncalled capital

LGFA

The council is one of 31 shareholders of the LGFA. In that regard it has uncalled capital of \$2 million (2018: \$2 million). When aggregated with the uncalled capital of other shareholders, \$20 million is available in the event that an imminent default is identified.

## Section F: Other disclosures

### F4 Contingencies, commitments and subsequent events (continued)

#### Unquantifiable contingent liabilities

Legal proceedings and disputes

- Legal claims against the group and the council exist for contract challenges, building defects, land issues, consents, flooding damage, valuations and other sundry disputes.
- Where it is assessed that the likelihood of having to make a payment under the claim is more than remote, the group and the council have shown the amount claimed or the maximum potential cost. It does not represent either an admission that the claim is valid or an estimation of the possible amount of any award against the group and the council.
- Amounts shown do not include any interest or costs that may be claimed if these cases were decided against the group and the council.
- A provision is provided on legal claims that meet the recognition criteria as disclosed in Note D5.

Contaminated land

- A significant degree of estimation has been involved to calculate the provision for remediation of contaminated land; as a result, the group and the council may be subject to further liability that is not currently recognised.
- Further sites are likely to be identified in the future and should testing confirm contamination, the group and the council will be obliged to undertake remedial action.
- Details of provision for contaminated land is provided in Note D5.

Weathertightness

- A significant degree of estimation has been involved to calculate the provision for weathertightness. As a result, the group and the council may be subject to further liability that is not currently recognised.
- Details of the provision for weathertightness remediation is provided in Note D5.

Ministry of Education and Carter Holt Harvey (CHH)

In 2013, the Ministry of Education (MOE) initiated High Court proceedings against Carter Holt Harvey (CHH) and others alleging inherent defects in the shadow clad plywood cladding sheets manufactured and distributed by CHH. The MOE's claim against CHH is for 833 school buildings, 36 of which are located within the Auckland region. In 2016, CHH commenced proceedings against 48 councils, including Auckland Council, alleging a breach of duty in the processing of building consents, undertaking building inspections and issuing Code Compliance Certificates.

Twenty-eight school buildings (one in Auckland) built outside the 10-year long stop contained within the Building Act 2004 have since been struck out by the High Court.

The court has directed that the trial be staged. The first stage will be a 6-month hearing commencing in April 2020, to determine whether shadow clad is inherently defective.

At present, there is still insufficient information to conclude on potential liability and claim quantum, if any.



## Section F: Other disclosures

### F4 Contingencies, commitments and subsequent events (continued)

#### Unquantifiable contingent liabilities (continued)

Homeowners and CHH	<p>During the year, a group of homeowners initiated High Court proceedings against Carter Holt Harvey (CHH) and others alleging inherent defects in the shadow clad plywood cladding sheets manufactured and distributed by CHH. CHH has joined 29 councils as co-defendants in this claim.</p> <p>At present, there is still insufficient information to conclude on potential liability and claim quantum, if any.</p>
Accommodation Provider Targeted Rate Judicial Review	<p>In May 2018 the council was served with legal proceedings challenging the council's 29 June 2017 decision to set a targeted rate for commercial accommodation providers. In December 2018, the applicants' claim was extended to include the council's 27 June 2018 decision to reset the rate and extend it to include the online accommodation sector.</p> <p>The matter was heard in May 2019 and a decision from the Court is awaited. The council's maximum exposure is the total of the targeted rate levied being \$26.2 million plus an unquantifiable amount to cover legal costs.</p>

#### Contingent and future assets

Repurchase of heritage buildings	<ul style="list-style-type: none"> <li>• In June 2004, one of the former councils sold a number of heritage buildings that form part of the Britomart precinct.</li> <li>• The council has a right to repurchase these buildings for \$1 after 150 years (June 2168). No estimate has been made of the financial effect of this transaction due to the long period involved. Auckland Council anticipates that an estimate will be established 20 years before this repurchase occurs.</li> </ul>
Entrust (previously named Auckland Energy Consumer Trust)	<ul style="list-style-type: none"> <li>• The council is currently a capital beneficiary of Entrust when it terminates on 27 August 2073.</li> <li>• As at 30 June 2019 the group and the council are not able to reliably estimate the value of any future benefit that may result from this arrangement.</li> </ul>
Robertson art donation	<p>A binding agreement was established in 2009 by Julian and Josie Robertson (the donors) to donate certain works of art owned by them to the group for display in the Auckland Art Gallery. The donors currently hold the works of art for their own and others' enjoyment, therefore the group will only gain possession of the artworks on the contribution date specified in the agreement. The group is currently unable to measure the right to receive assets reliably due to the uncertainty in the timing of the donation and certain restrictions set out in the agreement.</p>
Shared Responsibility Scheme assets	<ul style="list-style-type: none"> <li>• The council's Shared Responsibility Scheme was created to assist clubs with the construction of facilities on council-owned land.</li> <li>• Under the scheme, the clubs will control the use of the asset constructed and the council will gain control of the asset if the club vacates the facility.</li> <li>• The group is currently unable to determine the likelihood of clubs that might vacate their facility, and consequently the amount of asset that might vest with the council.</li> </ul>

## Section F: Other disclosures

### F4 Contingencies, commitments and subsequent events (continued)

#### COMMITMENTS

##### Capital commitments

Capital commitments relate to obligations which the group and the council have committed to. This specifically relates to work that is yet to commence and the expenditure that is yet to be incurred.

The group's and the council's capital commitments are as follows:

\$million	Group		Auckland Council	
	2019	2018	2019	2018
Property, plant and equipment				
Roading networks	632	194	-	-
Water and wastewater	1,162	213	-	-
Operational land and buildings	107	122	85	71
Other operational assets	71	101	13	35
Rolling stock	114	108	-	-
Restricted improvements	35	46	42	46
Stormwater	277	59	284	66
Restricted parks, reserves and buildings	9	1	10	1
Wharves	4	1	-	-
<b>Total property, plant and equipment</b>	<b>2,411</b>	<b>845</b>	<b>434</b>	<b>219</b>
Intangible assets	39	14	9	12
Share of capital commitments from joint venture (CRLI)	73	128	73	128
<b>Total capital commitments</b>	<b>2,523</b>	<b>987</b>	<b>516</b>	<b>359</b>

##### Crown Infrastructure Partner Wainui Development

In October 2018 Watercare, Auckland Transport and the council entered into several agreements with Crown Infrastructure Partners, Fulton Hogan Limited and related entities. The agreements provide for \$91 million of funding (of which the council's portion is \$33.5 million) to facilitate the accelerated development of bulk infrastructure including roading, water and wastewater to support the building of 9,000 homes at Wainui, north of Auckland. Included in capital commitments is the group's commitment towards infrastructure development of \$23 million.

##### America's Cup 36 funding commitment

The council has entered into a cost-sharing agreement with the Ministry of Business, Innovation and Employment (MBIE) to provide funding for the design and construction of infrastructure assets to host the 36th America's Cup. As at 30 June 2019, the council has a financial commitment of \$143 million to fund the operating and capital costs of which \$56 million of the commitment will be reimbursed by MBIE. The council also committed to MBIE that the infrastructure assets constructed for the event will remain in situ for future America's Cup events until 25 September 2038. Further to the agreement with MBIE, the council has committed to another \$50 million of auxiliary capital works.

##### Operating lease commitments

##### The group and the council as lessee

###### Accounting policy



The group and the council lease property, plant and equipment from third parties in the normal course of business with lease terms varying from 1 month to 70 years (2018: 1 month to 70 years). Payments made under operating leases (net of any incentives received from the lessor) are expensed on a straight-line basis over the lease term.

## Section F: Other disclosures

### F4 Contingencies, commitments and subsequent events (continued)

The future aggregate minimum lease payments payable under non-cancellable operating leases are as follows:

\$million	Group		Auckland Council	
	2019	2018	2019	2018
<b>Minimum operating lease payments payable</b>				
Not later than one year	122	109	15	12
Later than one year and not later than five years	442	426	20	20
Later than five years	359	426	5	2
<b>Total minimum operating lease payments payable</b>	<b>923</b>	<b>961</b>	<b>40</b>	<b>34</b>

Leases may be renewed at the group and the council's discretion, with rents set by reference to current market rates for items of equivalent age and condition. In some circumstances, the group and the council have the option to purchase the asset at the end of the lease term.

Contingent rents of \$2 million have been recognised during the year for the group and the council (2018: \$2 million). The total future sublease payments expected to be received under non-cancellable subleases at balance date is \$4 million for the group and the council (2018: \$4 million).

#### The group and the council as lessor

##### Accounting policy



The group and the council lease certain property, plant and equipment to third parties including land and buildings and some commercial and residential property. The leases have non-cancellable periods ranging from 1 month to 100 years (2018: 1 month to 100 years) with subsequent renewals negotiated with the lessee. Rental revenue (net of any incentives given to lessees) is recognised as revenue on a straight-line basis over the lease term.

Future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

\$million	Group		Auckland Council	
	2019	2018	2019	2018
<b>Minimum operating lease payments receivable</b>				
Not later than one year	46	46	22	15
Later than one year and not later than five years	129	137	53	30
Later than five years	152	171	125	108
<b>Total minimum operating lease payments receivable</b>	<b>327</b>	<b>354</b>	<b>200</b>	<b>153</b>

As part of delivery of community services to the Auckland region, the council leases property to community groups for no or minimal consideration. During the year, 1,171 community and sporting groups leased land on the council parks and reserve land or council-owned premises for between \$0 and \$10,000 per annum. Lease income from these leases is recorded at the nominal rental amount receivable.

Contingent rent recognised during the year amounted to \$0.6 million (2018: \$0.5 million) for the group and the council.

## Section F: Other disclosures

### F4 Contingencies, commitments and subsequent events (continued)

#### SUBSEQUENT EVENTS

##### City Rail Link Limited (CRL) alliance agreement

As disclosed in Note F3, the council is committed to funding 50% of the City Rail Link project. On 19 July 2019, CRL signed an alliance agreement with Link Alliance for the next stage of the City Rail Link. Link Alliance will construct the two new inner-city underground stations (Aotea and Karangahape), upgrade the existing Mt Eden station and complete tunnel construction just south of Wyndham Street to the North Auckland Line at Mt Eden. This contract brings the total value of the project to over \$4 billion. Partners to the alliance are three construction companies and three design companies, being Vinci Construction Grands Projects SAS, Downer NZ Limited, Soletanche Bachy International NZ Limited, WSP Opus (NZ) Limited, AECOM New Zealand Limited and Tonkin+Taylor Limited. This contract increases the council's commitment to the CRL project to over \$2 billion in total.

##### Eden Park financing

Subsequent to balance date, the council signed agreements with Eden Park Trust and ASB Bank Limited to take over the \$40 million loan in favour of Eden Park Trust from ASB Bank Limited effective 30 September 2019. The council will become the lender to Eden Park Trust and the guarantee from the council to ASB Bank Limited will terminate. All rights, titles and interests in ASB's loans and security in relation to Eden Park will transfer from ASB Bank Limited to the council. The impact on the financial statements of the council is to:

- increase non-current borrowing and non-current loan receivable by \$40 million; and
- reduce current liabilities (provision for financial guarantees) and increase non-current doubtful debt provision by the same amount.

##### Bond issue

On 26 September 2019 the council issued an EUR500 million 10-year fixed rate bond that has been hedged to NZ\$877 million.

None of the above transactions had a financial impact on the current year group results or its financial position at 30 June 2019.

### F5 Related party transactions

#### Accounting policy



Related parties include subsidiaries, associates, joint ventures, key management personnel, the elected representatives of the council and their close family members and entities controlled by them. Close family members include spouses or domestic partners, children and dependants.

Apart from the disclosure of key management personnel remuneration, transactions with related parties that are on an arm's length basis are not disclosed.

All transactions with related parties were made on an arm's length basis in the current and prior financial years.



#### Local government disclosures

##### Compensation paid to Regional Facilities Auckland

In October 2019, at the request of the council, Regional Facilities Auckland (RFA) entered into a rent-free lease agreement with Emirates Team New Zealand (ETNZ) for the rental of the Viaduct Event Centre for the ETNZ base. The council agreed to compensate RFA for the loss of rental based on historical tenancy levels. During the year the council paid RFA \$3.4 million. The remaining commitment for compensation is:

\$million	
2019/2020	5
2020/2021	5
2021/2022	1
<b>Total</b>	<b>11</b>

## Section F: Other disclosures

### F5 Related party transactions (continued)

#### Asset transfer from Panuku Development Auckland Limited (Panuku) to the council

On 26 June 2019, Panuku's waterfront assets and associated working capital balances were transferred to the council. These assets were transferred because they are of high importance to the council for both financial and strategic reasons. They are intended to play a key role in progressing key Auckland Plan 2050 outcomes in areas such as spatial development, planning, environmental management and stakeholder relationships. Although not necessarily affecting day-to-day operations, direct legal ownership of these landholdings by the council will provide another layer of control over the medium to long-term use of these assets. The total value of net assets transferred was \$746 million, and was made up as follows:

\$million	2019
Investment property	351
Wharves, marinas and associated property, plant and equipment	440
Investment in Westhaven Marina Limited	1
Rental revenue in advance	(46)
<b>Total</b>	<b>746</b>

Wharves, marinas and associated property, plant and equipment include the America's Cup syndicate bases valued at \$106 million. This property was classified by Panuku as investment property. The property is a strategic asset in the council's ownership and will not be used to generate income in the short to medium term. It therefore cannot be classified as investment property in accordance with *PBE IPSAS 16 Investment Property* and has been reclassified as property, plant and equipment.

The asset transfer was funded through Panuku's intercompany account, which was settled by way of a return of share capital of \$451 million and a non-cash dividend of \$295 million.



#### Local government disclosures

##### Key management personnel remuneration

Key management remuneration comprises of the total remuneration paid to the mayor, councillors, chief executive and executive leadership team, and excludes non-financial remuneration that is less than \$1,000 or carparking as the council considers the amount is immaterial and it is not practical to include this information.

\$	Auckland Council		FTE	2019	2018
	2019	2018			
<b>Mayor and councillors</b>					
Remuneration	2,563,943	2,486,633			
<b>Total mayor and councillors</b>	<b>2,563,943</b>	<b>2,486,633</b>		<b>21</b>	<b>21</b>
<b>Payments during the year to the chief executive</b>					
-Salary and other short-term employee benefits	677,371	671,023			
-Post-employment benefit (Kiwi saver contributions)	20,321	20,131			
<b>Total chief executive remuneration</b>	<b>697,692</b>	<b>691,154</b>		<b>1</b>	<b>1</b>
<b>Executive leadership team</b>					
-Salary and other short-term employee benefits	3,777,488	3,541,555			
-Post-employment benefit (Kiwi saver contributions)	100,104	98,288			
-Termination benefits	244,785	277,803			
<b>Total executive leadership team remuneration</b>	<b>4,122,377</b>	<b>3,917,646</b>		<b>10</b>	<b>12</b>
<b>Total key management personnel remuneration</b>	<b>7,384,012</b>	<b>7,095,433</b>		<b>32</b>	<b>34</b>

##### Employee numbers and remuneration bands

Full-time equivalent	Group		Auckland Council	
	2019	2018	2019	2018
Full-time employees	9,502	9,002	5,667	5,255
Part time employees (full-time equivalent)	1,304	1,257	881	865
<b>Total full-time equivalent</b>	<b>10,806</b>	<b>10,259</b>	<b>6,548</b>	<b>6,120</b>

## Section F: Other disclosures

### F5 Related party transactions (continued)



#### Local government disclosures (continued)

##### Employee numbers and remuneration bands (continued)

The numbers of employees who were employed at 30 June are detailed below. Those receiving remuneration of \$60,000 or more are grouped into \$20,000 bands. If there are less than six employees in a band, they are combined upwards with the next banding as stipulated in the LGA 2002.

Group			
Number of employees	2019	Number of employees	2018
<\$60,000	4,941	<\$60,000	5,159
\$60,000-\$79,999	2,578	\$60,000-\$79,999	2,404
\$80,000-\$99,999	2,188	\$80,000-\$99,999	1,949
\$100,000-\$119,999	1,235	\$100,000-\$119,999	1,160
\$120,000-\$139,999	725	\$120,000-\$139,999	595
\$140,000-\$159,999	379	\$140,000-\$159,999	289
\$160,000-\$179,999	173	\$160,000-\$179,999	149
\$180,000-\$199,999	101	\$180,000-\$199,999	85
\$200,000-\$219,999	47	\$200,000-\$219,999	52
\$220,000-\$239,999	42	\$220,000-\$239,999	41
\$240,000-\$259,999	40	\$240,000-\$259,999	31
\$260,000-\$279,999	17	\$260,000-\$279,999	14
\$280,000-\$299,999	12	\$280,000-\$299,999	8
\$300,000-\$319,999	15	\$300,000-\$319,999	13
\$320,000-\$339,999	7	\$320,000-\$359,999	16
\$340,000-\$359,999	13		
\$360,000-\$419,999	13	\$360,000-\$399,999	6
\$450,000-\$499,999	7	\$400,000-\$459,999	6
\$500,000-\$919,999	5	\$460,000-\$899,999	8
<b>Total number of employees</b>	<b>12,538</b>		<b>11,985</b>

##### Auckland Council

Number of employees	2019	Number of employees	2018
<\$60,000	3,030	<\$60,000	3,159
\$60,000-\$79,999	1,585	\$60,000-\$79,999	1,488
\$80,000-\$99,999	1,423	\$80,000-\$99,999	1,220
\$100,000-\$119,999	722	\$100,000-\$119,999	652
\$120,000-\$139,999	388	\$120,000-\$139,999	297
\$140,000-\$159,999	180	\$140,000-\$159,999	140
\$160,000-\$179,999	95	\$160,000-\$179,999	84
\$180,000-\$199,999	61	\$180,000-\$199,999	45
\$200,000-\$219,999	21	\$200,000-\$219,999	23
\$220,000-\$239,999	15	\$220,000-\$239,999	15
\$240,000-\$259,999	19	\$240,000-\$259,999	16
\$260,000-\$299,999	12	\$260,000-\$319,999	10
\$300,000-\$339,999	8		
\$340,000-\$359,999	5	\$320,000-\$379,999	6
\$360,000-\$699,999	6	\$380,000-\$699,999	6
<b>Total number of employees</b>	<b>7,570</b>		<b>7,161</b>

##### Severance payments

Severance payment are payments to employees relating to the termination of employment, whether of a monetary nature or otherwise. These payments are additional to any final payment of salary, holiday pay or superannuation contributions.

## Section F: Other disclosures

### F5 Related party transactions (continued)



#### Local government disclosures (continued)

##### Severance payments (continued)

For the year ended 30 June 2019 the council made 21 severance payments to employees totalling \$474,444 (30 June 2018: 32 payments totalling \$839,212).

The values of each of these severance payments were \$122,392; \$39,460; \$38,117; \$33,881; \$29,012; \$21,440; \$20,400; \$19,262; \$19,077; \$19,063; \$15,477; \$14,908; \$14,227; \$12,500; \$12,291; \$10,615; \$9,380; \$9,302; \$7,268; \$4,922; \$1,450.

In addition to the above, for the year ended 30 June 2019, other members of the group made 30 severance payments to employees totalling \$737,515 (30 June 2018: 27 payments totalling \$984,496).

The values of each of these severance payments were \$202,725; \$60,613; \$51,833; \$33,913; \$33,712; \$26,880; \$26,517; \$23,334; \$22,642; \$20,769; \$19,843; \$18,606; \$16,912; \$16,046; \$15,000; \$14,615; \$14,167; \$14,167; \$13,140; \$11,720; \$11,667; \$11,127; \$10,000; \$10,000; \$8,000; \$7,240; \$7,015; \$6,592; \$4,896; \$3,824.

##### Mayor, councillor and local board members' remuneration

Remuneration Authority determines the remuneration to be paid to the mayor, councillors and local board members. The Local Government Members (2018/19) (Local Authorities) Determination 2018 detailed the rates which apply from 1 July 2018 to 30 June 2019.

Remuneration to mayor and councillors as per the LGA 2002 is as follows:

\$	Auckland Council	
	2019	2018
<b>Mayor</b>		
Hon Phil Goff, CNZM, JP	279,351	273,906
<b>Councillors</b>		
Josephine Bartley	109,667	33,935
Dr Cathy Casey	109,667	107,530
Bill Cashmore	157,399	154,332
Ross Clow	129,932	127,399
Fa'anānā Efeso Collins	109,667	107,530
Linda Cooper, JP	112,947	107,530
Chris Darby	133,612	127,399
Alf Filipaina	109,667	107,530
Hon Christine Fletcher, QSO	109,667	107,530
Richard Hills	112,787	107,530
Penny Hulse	129,932	127,399
Denise Lee	-	35,107
Mike Lee	109,667	107,530
Daniel Newman, JP	109,667	107,530
Dick Quax	-	101,736
Greg Sayers	109,667	107,530
Desley Simpson, JP	109,667	107,530
Sharon Stewart, QSM	109,667	107,530
Sir John Walker, KNZM, CBE	109,667	107,530
Wayne Walker	109,667	107,530
John Watson	109,667	107,530
Paul Young	82,312	-
<b>Total mayor and councillor remuneration</b>	<b>2,563,943</b>	<b>2,486,633</b>

## Section F: Other disclosures

### F5 Related party transactions (continued)



#### Local government disclosures (continued)

##### Local board members' remuneration

Under the LGA 2002, the council is required to disclose remuneration to local board members as follows:

\$	2019	2018	\$	2019	2018
<b>Albert-Eden</b>			<b>Aotea Great Barrier</b>		
Lee Corrick	44,104	43,449	Jeff Cleave	24,089	23,732
Graeme Easte	44,104	43,449	Luke Coles	32,715	23,732
Glenda Fryer	61,843	53,407	Susan Daly	24,089	23,732
Peter Haynes	90,786	89,438	Izzy Fordham	55,092	54,273
Rachel Langton	44,104	43,449	Shirley Johnson	24,089	23,732
Benjamin Lee	44,104	43,449			
Jessica Rose	44,104	43,449			
Margi Watson	44,104	43,449			
<b>Total</b>	<b>417,253</b>	<b>403,539</b>	<b>Total</b>	<b>160,074</b>	<b>149,201</b>
<b>Devonport- Takapuna</b>			<b>Franklin</b>		
Mike Cohen, QSM, JP	43,124	42,484	Andrew Baker	120,032	110,841
Dr Grant Gillon	47,997	73,482	Malcolm Bell	42,402	41,772
Jennifer McKenzie	43,124	42,484	Alan Cole	42,402	41,772
Jan O'Connor, QSM	43,124	42,484	Brendon Crompton	40,770	41,772
Michael Sheehy	43,124	42,484	Sharlene Druyven	42,402	41,772
George Wood, CNZM	80,316	48,124	Angela Fulljames	81,244	80,038
			Amanda Hopkins	42,402	41,772
			Murray Kay	42,402	44,532
			Niko Kloeten	42,402	41,772
<b>Total</b>	<b>300,809</b>	<b>291,542</b>	<b>Total</b>	<b>496,458</b>	<b>486,043</b>
<b>Henderson-Massey</b>			<b>Hibiscus and Bays</b>		
Paula Bold-Wilson	44,620	43,957	Christina Bettany	43,795	43,144
Brenda Brady, JP	44,620	44,084	David Cooper	43,795	43,144
Peter Chan, JP	55,945	43,957	Janet Fitzgerald, JP	52,519	43,144
Warren Flaunty, QSM	44,620	43,957	Gary Holmes	43,795	43,144
Will Flavell	44,620	43,957	Julia Parfitt, JP	88,105	86,796
Matt Grey	44,620	43,957	Caitlin Watson	43,795	43,144
Shane Henderson	93,985	93,469	Vicki Watson	43,795	43,144
Vanessa Neeson, JP	44,620	47,557	Mike Williamson	43,795	43,144
<b>Total</b>	<b>417,650</b>	<b>404,895</b>	<b>Total</b>	<b>403,394</b>	<b>388,804</b>
<b>Howick</b>			<b>Kaipātiki</b>		
Garry Boles	44,827	44,161	John Gillon	87,227	55,645
Katrina Bungard	58,513	44,161	Paula Gillon	43,536	42,889
David Collings	98,421	96,960	Danielle Grant	52,003	73,176
Jim Donald, JP	44,827	44,161	Ann Hartley, JP	43,536	42,889
John Spiller	44,827	44,161	Kay McIntyre, QSM	43,536	42,889
Mike Turinsky	44,827	44,161	Anne-Elise Smithson	43,536	42,889
Adele White	44,827	44,161	Adrian Tyler	43,536	42,889
Bob Wichman	44,827	44,161	Lindsay Waugh	43,536	42,889
Peter Young, JP	44,827	44,161			
<b>Total</b>	<b>470,723</b>	<b>450,248</b>	<b>Total</b>	<b>400,446</b>	<b>386,155</b>



## Section F: Other disclosures

### F5 Related party transactions (continued)



#### Local government disclosures (continued)

#### Local board members' remuneration (continued)

\$	2019	2018	\$	2019	2018
<b>Māngere-Ōtāhuhu</b>			<b>Manurewa</b>		
Tauanu'u Nick Bakulich	43,691	43,042	Joseph Allan	43,691	43,042
Carrol Elliot, JP	43,691	43,042	Stella Cattle	49,570	43,042
Makalita Kolo	43,691	43,042	Sarah Colcord	43,691	43,042
Tafafuna'i Tasi Lauese, JP	43,691	43,042	Angela Cunningham-Marino	43,691	43,042
Christine O'Brien	43,691	43,042	Angela Dalton	89,995	86,491
Lemauga Lydia Sosene	85,267	84,001	Rangi McLean	46,458	43,042
Togiatolu Walter Togiamaua	50,877	43,042	Ken Penney	43,691	43,042
			Dave Pizzini	43,691	13,584
<b>Total</b>	<b>354,599</b>	<b>342,253</b>	<b>Total</b>	<b>404,478</b>	<b>358,327</b>
<b>Maungakiekie-Tāmaki</b>			<b>Ōrākei</b>		
Don Allan	43,433	42,789	Troy Churton	43,897	43,245
Josephine Bartley	-	56,969	Carmel Claridge	51,749	43,245
Debbie Burrows	50,421	48,704	Colin Davis, JP	43,897	81,900
Bernie Diver	43,433	42,789	Toni Millar, QSM, JP	43,897	43,245
Nerissa Henry	43,433	42,789	Kit Parkinson	86,764	46,821
Chris Makoare	84,493	49,016	Ros Rundle	43,897	43,245
Maria Meredith	43,433	927	David Wong	43,897	43,245
Alan Verrall	43,433	42,789			
<b>Total</b>	<b>352,079</b>	<b>326,772</b>	<b>Total</b>	<b>357,998</b>	<b>344,946</b>
<b>Ōtara-Papatoetoe</b>			<b>Papakura</b>		
Apulu Reece Autagavaia	49,023	44,699	Felicity Auva'a	45,979	41,873
Dr Ashraf Choudhary, QSO, JP	43,897	43,245	Brent Catchpole	76,860	81,998
Lotu Fuli	86,454	85,170	Hon George Hawkins, QSO	42,505	41,873
Mary Gush	43,897	43,245	Bill McEntee	42,505	41,873
Donna Lee	43,897	43,245	Michael Turner	42,505	41,873
Ross Robertson, QSO, JP	51,570	43,245	Katrina Winn	42,505	41,873
Dawn Trenberth	43,897	43,245			
<b>Total</b>	<b>362,635</b>	<b>346,094</b>	<b>Total</b>	<b>292,859</b>	<b>291,363</b>
<b>Puketāpapa</b>			<b>Rodney</b>		
Anne-Marie Coury	43,125	42,484	Brent Bailey	41,989	41,365
Harry Doig	80,109	78,919	Tessa Berger	41,989	41,365
Julie Fairey	47,878	42,484	Cameron Brewer	41,989	41,365
David Holm	43,125	42,484	Beth Houlbrooke	78,510	77,344
Shail Kaushal	43,125	42,484	Louise Johnston	41,989	41,365
Ella Kumar, JP	43,125	42,484	Phelan Pirrie	53,632	41,365
			Allison Roe, MBE	41,989	41,365
			Colin Smith	41,989	41,365
			Brenda Steele	41,989	41,365
<b>Total</b>	<b>300,487</b>	<b>291,339</b>	<b>Total</b>	<b>426,065</b>	<b>408,264</b>
<b>Upper Harbour</b>			<b>Waiheke</b>		
Uzra Casuri Balouch, JP	42,815	42,179	Shirin Brown	25,740	25,358
Nicholas Mayne	42,815	42,179	Cath Handley	61,333	30,756
John McLean	42,815	42,179	John Meeuwssen	25,740	25,358
Margaret Miles, QSM, JP	127,079	103,463	Bob Upchurch	25,740	25,358
Brian Neeson, JP	42,815	42,383	Paul Walden	36,381	55,024
Lisa Whyte	51,930	75,611			
<b>Total</b>	<b>350,269</b>	<b>347,994</b>	<b>Total</b>	<b>174,934</b>	<b>161,854</b>

## Section F: Other disclosures

### F5 Related party transactions (continued)



#### Local government disclosures (continued)

##### Local board members' remuneration (continued)

\$	2019	2018	\$	2019	2018
<b>Waitākere Ranges</b>			<b>Waitematā</b>		
Sandra Coney, QSO	42,712	42,077	Shale Chambers	49,728	42,585
Neil Henderson	42,712	42,077	Adriana Avendario Christie	43,226	42,585
Greg Presland	78,046	76,887	Pippa Coom	83,308	82,070
Steve Tollestrup	42,712	42,077	Mark Davy	-	14,067
Saffron Toms	46,671	42,077	Richard Northey, ONZM	43,226	42,585
Ken Turner	42,712	912	Denise Roche	43,226	13,439
Denise Yates, JP	-	25,397	Vernon Tava	43,226	46,005
			Rob Thomas	43,226	42,585
<b>Total</b>	<b>295,565</b>	<b>271,504</b>	<b>Total</b>	<b>349,166</b>	<b>325,921</b>
<b>Whau</b>					
Derek Battersby, QSM, JP	43,691	43,042			
Catherine Farmer	43,691	43,042			
Duncan Macdonald, JP	43,691	43,042			
Te'eva Matafai	43,691	43,042			
Tracy Mulholland	85,267	84,001			
David Whitley	43,691	43,042			
Susan Zhu	50,877	43,042			
<b>Total</b>	<b>354,599</b>	<b>342,253</b>			

The total local board remuneration as at 30 June 2019 is \$7,442,540 (2018: \$7,119,311).

### F6 Reconciliation of surplus/ (deficit) after income tax to net cash inflow from operating activities

\$million	Group		Auckland Council	
	2019	2018	2019	2018
<b>Surplus/(deficit) after income tax</b>	<b>175</b>	<b>660</b>	<b>(280)</b>	<b>(224)</b>
<b>Add/(less) non-cash items</b>				
Depreciation and amortisation	922	865	268	261
Vested assets	(486)	(572)	(119)	(226)
Net change in fair value of financial instruments	665	204	603	181
Net increase in fair value of investment property	(15)	(24)	(7)	(9)
Time value adjustments	20	16	19	16
Impairment of property, plant and equipment, receivables and other assets	9	(3)	3	5
Net (gain)/loss on disposal of property, plant and equipment and intangible assets	3	(42)	(13)	(54)
Gain on business combination	(4)			
Share of surplus/(deficit) in associates and jointly-controlled entities (net of dividends received)	(32)	(80)	(28)	6
Non-cash dividend from Panuku/related party	-	-	(295)	-
Other non-cash revenue	(5)	-	(93)	(1)
<b>Less items classified as investing or financing activities</b>	<b>(2)</b>	<b>(9)</b>	<b>6</b>	<b>1</b>
<b>Add/(less) movements in working capital items</b>	<b>(2)</b>	<b>86</b>	<b>(56)</b>	<b>70</b>
<b>Net cash inflow/(outflow) from operating activities</b>	<b>1,248</b>	<b>1,101</b>	<b>8</b>	<b>26</b>

## Section F: Other disclosures

### F7 Regional fuel tax



#### Local government disclosures

##### Regional fuel tax

Pursuant to the enactment of the Land Transport Management (Regional Fuel Tax) Amendment Act 2018, the Auckland regional fuel tax scheme (RFT) came into effect from 1 July 2018, at a rate of 10 cents per litre (plus GST) on petrol and diesel and their bio-variants. The RFT replaced the Interim Transport Levy which was a targeted rate until 30 June 2018.

Under the RFT legislation, New Zealand Transport Agency (NZTA) is responsible for the collection of RFT with administrative, monitoring and enforcement powers. The proceeds, net of administrative charges, are disbursed to the council on a monthly basis. The RFT can only be spent on projects set out by regulation and any unspent amounts at the end of a reporting period are transferred and accounted for through a restricted reserve.

The RFT contributed \$156 million to other revenue, and of this \$129 million had been received from NZTA by balance date. The revenue was applied towards expenditure on the following projects:

Projects	RFT applied (\$ million)	Progress
Bus priority improvements	3	<p>Double decker buses - Enabling works have been completed to allow double decker buses to be rolled out on the frequent bus routes on Manukau Road, Remuera Road and Mt Eden Road, and the Northern Busway's new NX2 service. Investigation and design have been completed for the New North Road route to allow delivery in 2019/2020.</p> <p>Bus priority - Investigation and design processes have been initiated for bus priority improvements to be delivered through Auckland Transport's Connected Communities programme. Routes being investigated include Great North Road, Great South Road, Massey Road (frequent route 32), Ellerslie-Panmure Highway and Pakuranga Road, Manukau Road, Mt Eden Road, New North Road, Parnell Road, Ponsonby Road, Remuera Road and Sandringham Road.</p> <p>Sylvia Park - Improvements to bus priority and interchange facilities at Sylvia Park are under review.</p>
City centre bus infrastructure	7	<p>Downtown - Investigation, design and consenting activities have been undertaken to deliver bus interchange improvements in downtown Auckland. Construction of the new Lower Albert Street bus interchange is expected to begin in late 2019 and be completed late 2020 prior to the America's Cup 36.</p> <p>City Centre - A detailed business case has been initiated for bus improvements along Wellesley Street, which is expected to be delivered from 2022 (working in and around City Rail Link and other city centre construction works). As part of the indicative business case for this work, the need to re-route bus services via the Midtown Crossover was identified and the requirement for a Learning Quarter bus interchange was confirmed. Detailed business cases for these will start shortly. The Midtown Crossover is expected to be delivered from 2022 and the Learning Quarter bus interchange is expected to be delivered in later years.</p>
Improving airport access	2	<p>Puhinui Station Interchange - Business case, consenting and design work has been undertaken to deliver a new, high quality bus and rail interchange at Puhinui Train Station. The new interchange will be similar in size and function to recently completed projects at Ōtāhuhu, Panmure and Manukau. Construction is expected to begin in late 2019 with planned completion in early 2021.</p> <p>Airport access improvements - A detailed business case and design work has been undertaken on the bus priority initiatives required to connect Manukau Station, Puhinui Interchange and the airport. These are also planned for completion in early 2021 in line with the Puhinui Station Interchange.</p>

## Section F: Other disclosures

### F7 Regional fuel tax (continued)



#### Local government disclosures (continued)

#### Regional fuel tax (continued)

Projects	RFT applied (\$ million)	Progress
Eastern Busway	24	<p>Eastern Busway stage one - Construction has commenced on stage one of the Eastern Busway between Panmure and Pakuranga town centres. While RFT funding is not being applied to this stage, its completion is a necessary prerequisite for stages two to four, which do have RFT funding.</p> <p>Eastern Busway stages two to four - RFT funding is being applied to Eastern Busway stages two to four, which make up the Pakuranga town centre (including the Reeves Road flyover), Ti Rakau Drive busway and Botany town centre stages of the project. Progress on these stages during 2018/2019 include investigation, design, consenting and land acquisition activity. Construction of these sections of the Eastern Busway is expected to start in 2022.</p>
Downtown ferry terminal and redevelopment	11	<p>Stage one of the Downtown Ferry Terminal Redevelopment is being progressed as part of the council and Auckland Transport's Downtown Programme. The project involves constructing six new berths on the western side of Queens Wharf to allow the existing Piers 3 and 4 to be decommissioned. Investigation, design, procurement and consenting activities have been undertaken during 2018/2019. Construction is scheduled over the mid-2019 to mid-2020 period.</p>
Penlink	1	<p>During 2018/2019, the Penlink business case was updated and land acquisition activities were undertaken. Construction of the project is scheduled to take place later in the 10-year Budget 2018-2028 period.</p>
Mill Road corridor	8	<p>During 2018/2019, a number of properties were acquired along the Mill Road corridor to allow this project to proceed. In addition, work on the Mill Road business case has progressed to help identify the highest priority initiatives to be delivered within the next 10 years. Construction of the full project is scheduled for later in the 10-year Budget 2018-2028 period. In the shorter term, a proposal for dynamic lanes on Redoubt Road has been investigated (see the Network capacity and performance improvement section below).</p>
Road corridor improvements	4	<p>Seal extensions - Part of Auckland Transport's ongoing seal extensions programme is funded from the regional fuel tax. During 2018/19, regional fuel tax funding has been applied to seal extensions along Monowai Road, Wainui.</p> <p>Lincoln Road - Design, value engineering and land acquisition activities have been undertaken during 2018/19. A value engineered option has been developed that can be delivered within the designation.</p> <p>Matakana Link Road - Investigation, design, consenting and property acquisition activities have been undertaken during 2018/19. Construction may commence in early 2020, subject to the successful resolution of appeals, confirmation of consents, designation, land and funding.</p> <p>Lake Road / Esmonde Road - A detailed business case has been initiated to confirm the improvements that will be delivered along this corridor. Improvements are scheduled for delivery later in the 10-year Budget 2018-2028 period.</p> <p>Glenvar / East Coast Road - A single stage business case has been initiated to confirm the improvements that will be delivered along this corridor.</p> <p>Smales / Allens intersection upgrade - This project is scheduled for implementation in 2023/2024. The current design is from 2011 and will be reviewed prior to the project being delivered. Only a small amount of activity has been undertaken during 2018/2019 as implementation is still several years away.</p>

## Section F: Other disclosures

### F7 Regional fuel tax (continued)



#### Local government disclosures (continued)

#### Regional fuel tax (continued)

Projects	RFT applied (\$ million)	Progress
Network capacity and performance improvement	7	<p>Network performance / optimisation - This programme, spread across the 10-year Budget 2018-2028 period, aims to improve multi-modal level of service deficiencies on the Auckland network through smaller scale interventions. During 2018/2019, investigation and design work has been undertaken on a number of sites, with eight projects being completed and a further eight under construction. Larger projects being progressed include: the signalisation of Felton Matthew Avenue and St Johns Road; improvements to the Gossamer / Ti Rakau Drive, Great South / Church Road / SEART intersection; efficiency improvements around Botany town centre; and dynamic lanes on Redoubt Road. In addition, the programme has optimised more than 350 intersections across Auckland.</p> <p>Intelligent Transport Systems - This programme, spread across the 10-year Budget 2018-2028 period, aims to use technology to help manage congestion, improve safety and influence travel demand on the Auckland network. During 2018/2019, the programme delivered Pedestrian Analytics and CCTV Analytics. The Pedestrian Analytics initiative provides pedestrian and cyclist count and flow data to support planning, strategy, decisions and projects. Eleven locations within the central business district have had Pedestrian Analytics installed. The CCTV Analytics initiative provides valuable information on red-light-running at intersections. This enables concerns over red-light-running to be validated and quantified, the effectiveness of changes to be analysed and supports engagement with the New Zealand Police. There are now 12 intersections with CCTV and Video Analytics installed.</p>
Growth-related transport infrastructure	1	During 2018/2019 land acquisition progressed on several properties required for future transport networks in Auckland's growth areas.
Other projects	1	The Regional Fuel Tax also provides funding for Auckland Transport's walking and cycling programme, park and ride programme and the future purchase of additional electric trains and stabling, which are all scheduled for implementation later in the 10-year Budget 2018-2028 period. During 2018/2019, investigation processes have been initiated for future walking and cycling improvements, including the Orakei Shared Path; the central isthmus, city centre and fringe areas; and improvements to be delivered through Auckland Transport's Connected Communities programme.
Accelerated road safety infrastructure	20	<ul style="list-style-type: none"> <li>High risk roads and intersections - Safety improvements have been made to seven high risk urban roads, four high risk rural roads and 26 pedestrian infrastructure upgrades. In addition, 235 km of new signage, 150 high risk bend treatments and 11 intersection upgrades have been delivered.</li> <li>Targeted safety improvements - During 2018/2019 Auckland Transport had delivered over 54 targeted safety improvement projects, with a further 25 under construction.</li> <li>Speed safety management - Speed management safety initiatives were applied to areas identified as posing the greatest risk to people. Auckland Transport publicly consulted on a Proposed Speed Limit bylaw which proposed speed limit changes to over 700 kilometres of roads in Auckland.</li> <li>Red light cameras - 8 red light cameras were installed at high risk intersections to reduce crashes and improve safety and are expected to be operational by September 2019.</li> </ul>
<b>Total</b>	<b>89</b>	

## Section G: Financial reporting and prudence benchmarks

### Annual report disclosure statement for the year ended 30 June 2019

#### What is the purpose of this statement?

The purpose of this statement is to disclose the Auckland Council Group (the group)’s financial performance in relation to various benchmarks to enable the assessment of whether the group and Auckland Council (the council) are prudently managing their revenues, expenses, assets, liabilities, and general financial dealings.

The council is required to include this statement in its annual report in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the regulations). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

The benchmarks have been prepared for the group. Unless prescribed by the regulations, the quantified limit for current year benchmark is calculated using financial information disclosed in the 10-year Budget 2018-2028 including the prospective financial statements. The prior years have not been restated.

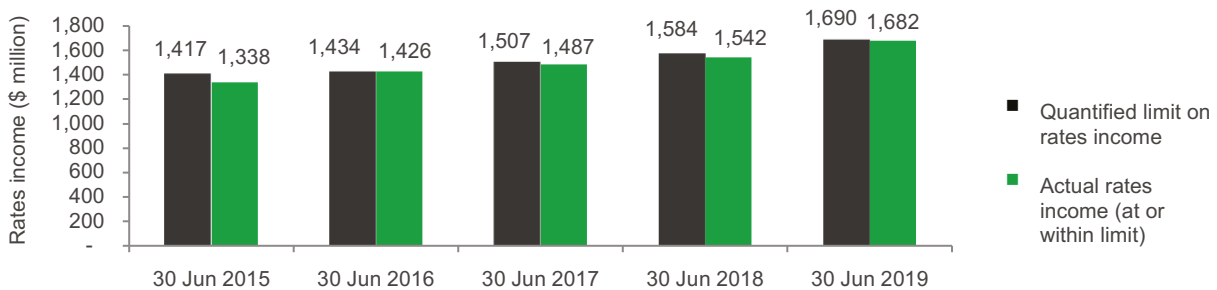
#### Rates affordability benchmark

The group meets the rates affordability benchmark if:

- its actual rates income equals or is less than each quantified limit on rates, and
- its actual rates increase equals or is less than each quantified limit on rates increases.

##### Rates (income) affordability

The graph below compares the council’s rates income including growth in the rating base with the quantified limit contained in the council’s financial strategies for years 2015-2018. This measure included only general rates. However, from 1 July 2018, the council updated its financial strategies to include all rates that apply generally across Auckland.



##### Rate (increases) affordability

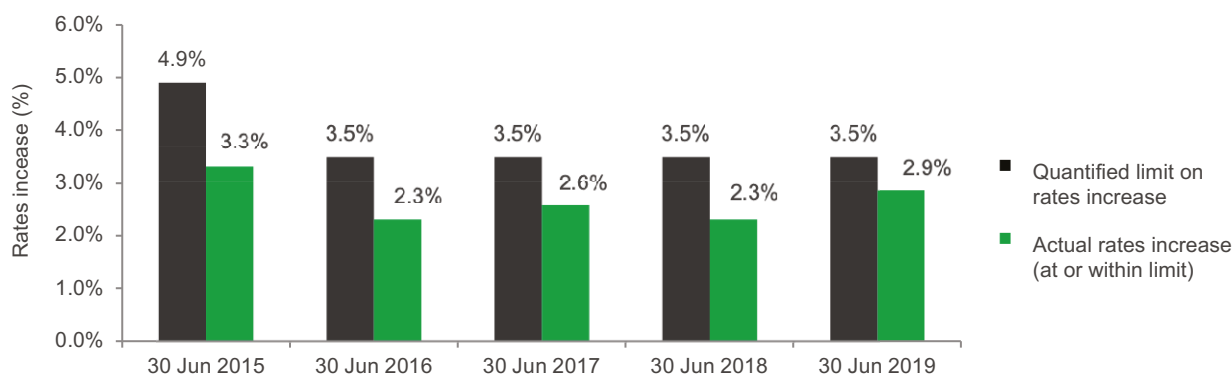
The graph below compares the year-on-year actual and the 10-year Budget 2018-2028 percentage increase in the group’s general rates income and includes targeted rates from 1 July 2018 that apply generally across Auckland and refers to the overall average increase across all ratepayers. From years 2015-2018 rates increase was calculated based on general rates income only.

## Section G: Financial reporting and prudence benchmarks

### Rates affordability benchmark (continued)

#### Rate (increases) affordability (continued)

The quantified limit is calculated using the increase in income, exclusive of growth in the rating base. The quantified limit is to maintain average rates increases for existing ratepayers.



### Debt affordability benchmark

The group meets the debt affordability benchmark if its actual borrowing is within quantified limit on borrowings. Debt as a percentage of total revenue is described in the 10-year Budget 2018-2028.

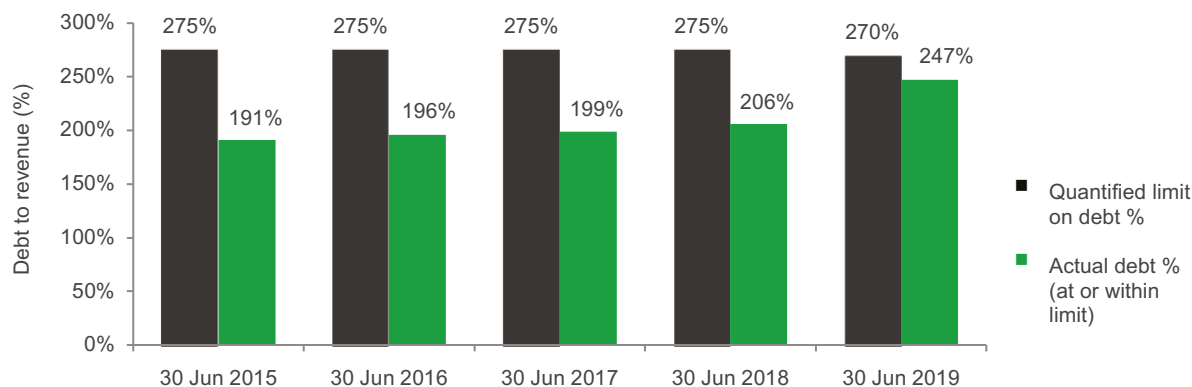
The components used in the debt affordability benchmarks are defined as follows:

- Revenue:** Cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes capital contributions and sale of assets or pass-through items (e.g. developer contributions and vested assets).
- Debt:** Long and short term financial debt assumed directly by the group and capitalised lease obligations to pay to another entity in accordance with an express agreement or for other legally binding reasons.

#### Debt as a percentage of revenue

The graph below compares the group's actual debt with the quantified limit on borrowing contained in the financial strategy included in the 10-year Budget 2018-2028 and the council's treasury management policy. The quantified limit for the current year, measured in terms of debt as a percentage of revenue, is 270% (2015-2018: 275%).

In prior years, the quantified limits excluded revenue or expenses, assets or liabilities relating to Watercare and total revenue and net debt were used to calculate the ratios. From 1 July 2018, pursuant to adoption of 10-year Budget 2018-2028, the council adopted a new financial strategy with revised methodology and definition of underlying components (as explained above). The current year calculation includes the results and debt of Watercare. Had the same method been applied to the historical ratios, the revised actual net debt as a percentage of revenue from 2015 to 2018 would have been 247%, 239%, 254% and 260%, respectively.





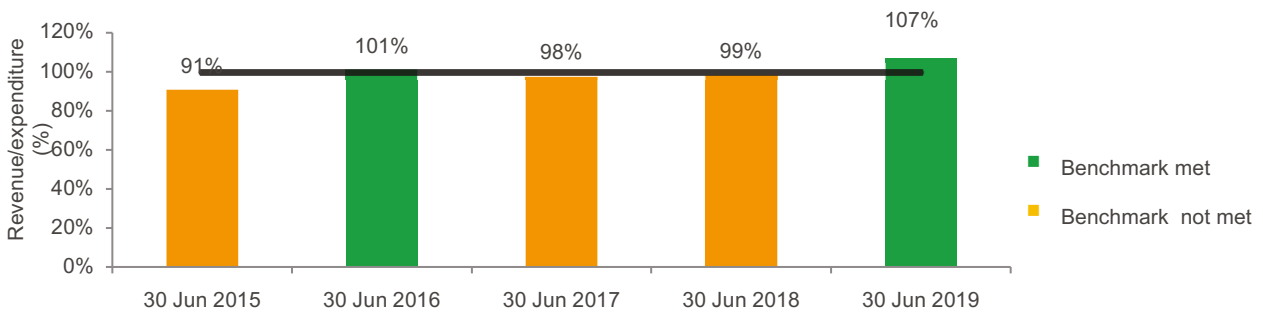
## Section G: Financial reporting and prudence benchmarks

### Balanced budget benchmark

The graph below displays the group’s revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment) as a proportion of operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment). The group meets this benchmark if its revenue equals or is greater than its operating expenses.

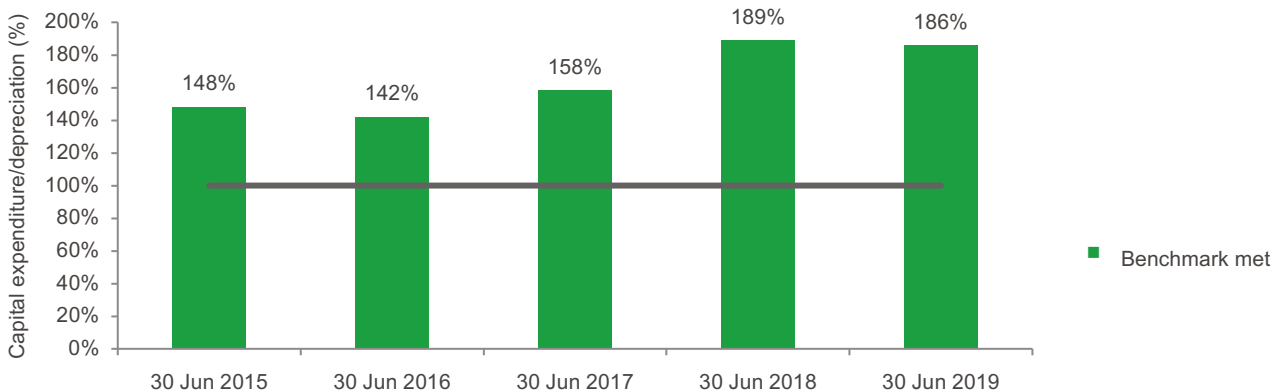
For the purpose of the balanced budget benchmark, movements in derivative financial instruments have been excluded in accordance with the disclosure requirement. The group has entered into derivative transactions to mitigate any foreign currency exposure from its offshore borrowings as required by its risk management policies, therefore FX volatility has been included in this benchmark even though it has been fully mitigated. The results do not reflect the full economic substance of the transaction. Refer to Note E3 for further details of the council’s risk management policies on foreign exchange risk.

In line with our financial strategy the council continues to move toward full funding of depreciation by 2028. The adjusted revenue was lower than the adjusted operating expenses in 2015, 2017 and 2018, mainly due to expenses incurred being greater than budget. Please see Section A of this volume for the explanation of significant variances against budget.



### Essential services benchmark

The graph below displays the group’s capital expenditure on network services as a proportion of depreciation on network services. The group meets this benchmark if its capital expenditure on network services equals or is greater than depreciation on network services.

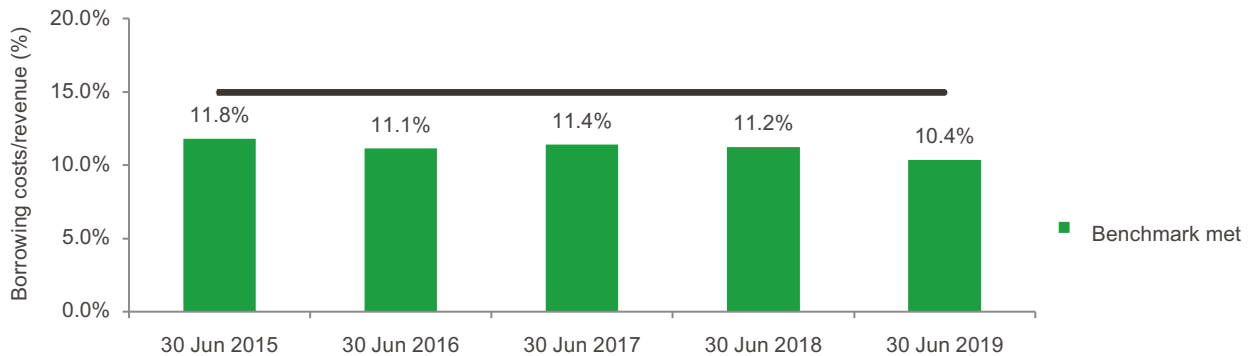




## Section G: Financial reporting and prudence benchmarks

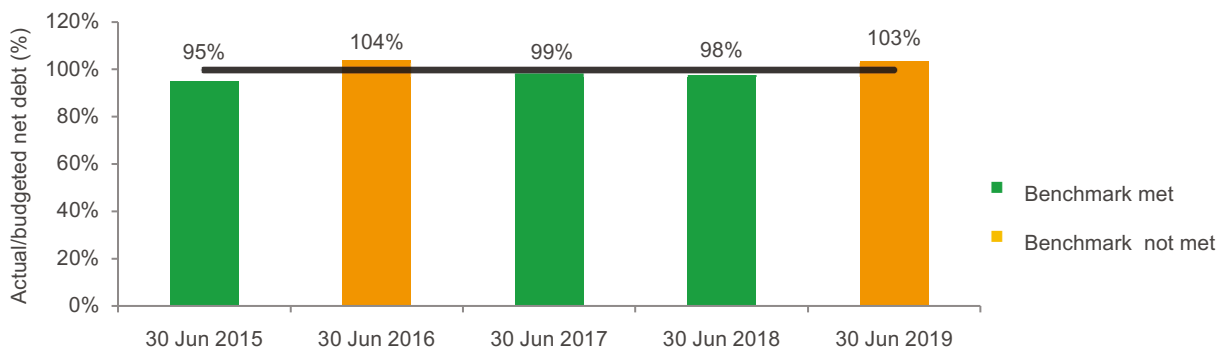
### Debt servicing benchmark

The graph below displays the group’s borrowing costs as a proportion of revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment). Because Statistics New Zealand projects Auckland’s population will grow as fast as, or faster than, the national population growth rate, it meets the debt servicing benchmark if its borrowing costs equal or are less than 15% of its revenue.



### Debt control benchmark

The graph below displays the group’s actual net debt as a proportion of planned net debt. In this statement, net debt means financial liabilities less financial assets (excluding trade and other receivables). The group meets the debt control benchmark if its actual net debt equals or is less than its planned net debt. The 2016 and 2019 net debt was adversely impacted by derivatives which were higher than planned as a result of the volatility in interest rates during the financial year which was not budgeted.

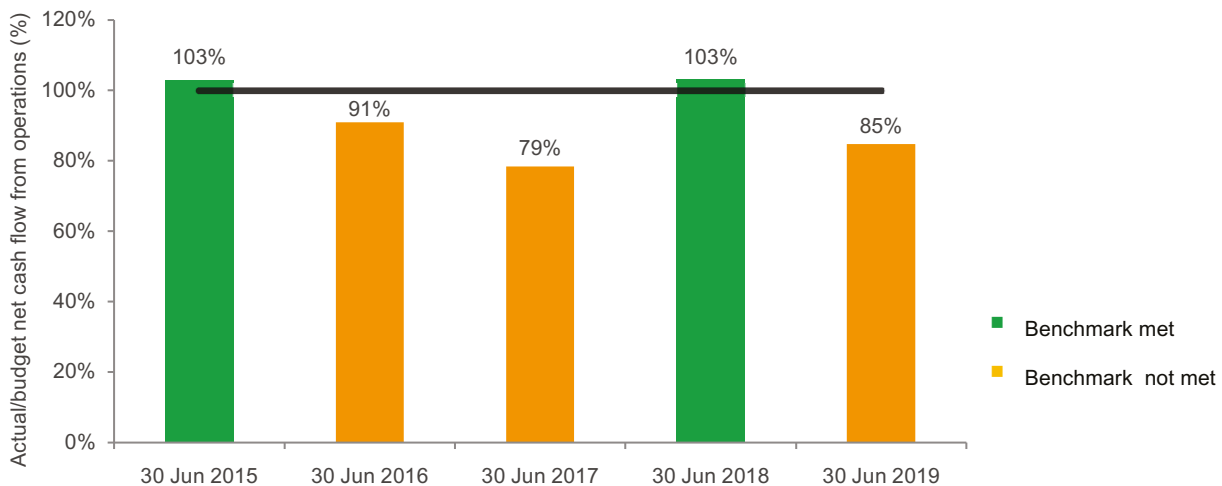




## Section G: Financial reporting and prudence benchmarks

### Operations control benchmark

This graph below displays the group’s actual net cash flow from operations as a proportion of its planned net cash flow from operations. The group meets the operations control benchmark if its actual net cash flow from operations equals or is greater than its planned net cash flow from operations. The 2016 actual cash flow was less than planned due to higher than expected cash outflows for delivery of council services and maintenance of council assets. The 2017 actual cash flow was less than planned due to higher payments to suppliers and employees driven by the higher operating expenses. Operating cash flow for 2018 was higher than 2017 and slightly above planned. The 2019 cash flow was higher than 2018 but less than planned. This was because of lower grants received and higher payments to suppliers and employees driven by high payments made to settle weathertightness claims.



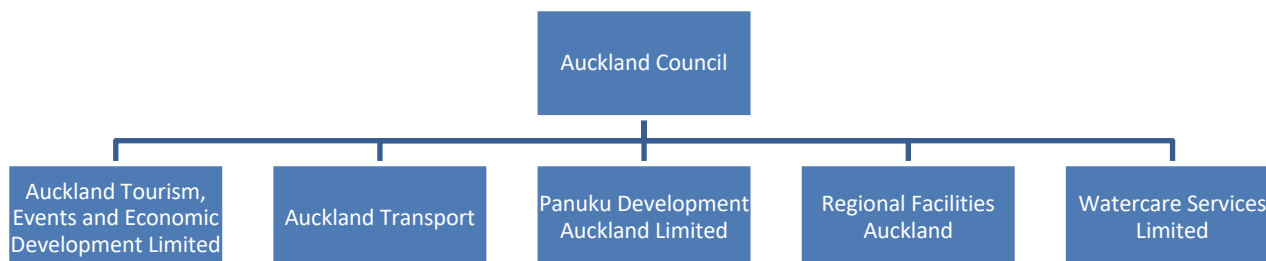
## Section H: Council-controlled organisations

### Overview

Council-controlled organisations (CCOs) are organisations in which Auckland Council (the council) controls 50 per cent or more of the votes or has the right to appoint 50 per cent (or more) of the directors or trustees.

A substantive CCO is a CCO that is either wholly owned or wholly controlled by the council and either is responsible for the delivery of a significant service or activity on behalf of the council, or owns or manages assets with a value of more than \$10 million, excluding entities exempted from CCO status.

The council has five substantive CCOs – and is the sole shareholder/owner for all five:



In addition to the substantive CCOs, the council has a number of other CCOs, and other entities exempted from CCO status, which together represent less than 0.1% of the Auckland Council Group (the group)'s total assets.

These include:

- Community Education Trust (COMET) Auckland
- Contemporary Art Foundation
- Arts Regional Trust (ART)\*
- Highbrook Park Trust\*
- Manukau Beautification Charitable Trust\*
- Mangere Mountain Education Trust
- Mount Albert Grammar School Community Swimming Pool Trust\*
- Te Motu a Hiaroa (Puketutu Island) Governance Trust\*
- Te Puru Community Charitable Trust\*.

While each CCO has its own specific objectives, the Local Government Act 2002 identifies the principal objective of all CCOs. In summary, this is to:

- achieve the objectives of its shareholders, both commercial and non-commercial as specified in the statement of intent;
- be a good employer;
- exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and
- conduct its affairs in accordance with sound business practice.

The council's vision is for Auckland to be a world-class city where talent wants to live. The CCOs have a key role to play in this vision. The council expects CCOs to contribute to achieving the following outcomes from the 10-year Budget 2018-2028:

- a fair, safe and healthy Auckland;
- a green Auckland;
- an Auckland of prosperity and opportunity;
- a well-connected and accessible Auckland;
- a beautiful Auckland that is loved by its people;
- a culturally rich and creative Auckland; and
- a Māori identity that is Auckland's point of difference in the world.

The key performance targets and other measures of the CCOs, together with the nature and scope of activities provided were consistent with the information set out in the 10-year Budget 2018-2028.

No issues arose with regard to ownership or control of CCOs this financial year.

\*Entities exempted from CCO status under s 7(3) of LGA 2002.

## Section H: Council-controlled organisations

### Auckland Tourism, Events and Economic Development



An Auckland Council Organisation

#### Overview

Auckland Tourism, Events and Economic Development Limited (ATEED)'s role is to support Auckland Council's vision of creating a world-class city and deliver great value for money by supporting the growth of a vibrant and competitive economy, with a particular focus on supporting business and investment attraction, business growth, innovation and skills as well as supporting sustainable growth of the visitor economy.

#### Objectives and contribution to 10-year budget

ATEED is to give effect to the objectives and priorities of the council in the 10-year budget, and the Auckland Economic Development Strategy, and in particular by:

##### Opportunities and prosperity

- Creating the conditions for a resilient economy, innovation, and employment growth, and raising productivity.
- Attracting and retaining skills, talent and investment.
- Developing skills and talent for the changing nature of work and life-long achievement.

##### Māori identity and wellbeing

- Promoting Māori success, innovation and enterprise.
- Showcasing Auckland's Māori identity and vibrant Māori culture.

ATEED is to contribute to other relevant outcomes in the 10-year budget, including:

- belonging and participation

In doing so, ATEED is to:

- advance Māori employment and create the environment for Māori business and iwi organisations to be a powerhouse in Auckland's economy
- leverage Auckland's position to support growth in exports and a competitive New Zealand economy
- increase ongoing learning and training in new and emerging areas, with a focus on those most in need.

#### Activities

ATEED's activities focus on economic growth and growing the visitor economy, and include the following:

- sustainably growing the value of Auckland's visitor economy by partnering to implement the Destination Auckland 2025 strategy with a focus on destination marketing and management, major events, business events (meetings and conventions) and international student attraction and retention.
- working with central government, corporates, education providers, and the group to support local economic and employment outcomes across Auckland, including a focus on less prosperous areas of Auckland.
- supporting Auckland businesses to grow by connecting them to support, such as the Regional Business Partner Programme, that builds their capability, enhances export performance and helps them prepare for technological change and disruption.
- supporting jobs and skills matching initiatives to assist Aucklanders who are not currently in the workforce or who are underemployed.
- working with partners to develop and deliver initiatives that promote Māori Economic Development, with a focus on building an eco-system of support for Māori businesses.
- continuing the development and implementation of the Wynyard Quarter Innovation Precinct, focusing on the management and strategic leasing of the GridAKL buildings, with the objective of growing businesses, creating jobs and building Auckland's culture of innovation and entrepreneurship.
- promoting Auckland as a global destination for business and investment with a focus on target places and sectors of interest.

For information on the above activities, actual performance, key performance targets and other measures set out in the 10-year Budget 2018-2028 see the groups of activities section in Volume 1 of the Auckland Council Annual Report 2018/2019.

#### Directors

- |  |                               |  |
|--|-------------------------------|--|
| • David McConnell (Chairperson, resigned October 2018) | • Danny Chan                  | • Glenys Coughlan (resigned February 2019) |
| • Mark Franklin (Chairperson, commenced November 2018) | • Professor Stuart McCutcheon | • Evan Davies (commenced November 2018)    |
|  | • Helen Robinson              |  |
|  | • Michael Taitoko             |  |

## Section H: Council-controlled organisations



### Overview

Auckland Transport is responsible for managing the region's transport system. It provides transport services to Auckland's residents and visitors and is guardian of more than \$19 billion worth of publicly held assets including roads and footpaths and delivering public transport services and street parking.

Auckland Transport was legally constituted under part 4 of the Local Government (Auckland Council) Act 2009 on 1 November 2010. Auckland Transport is a body corporate with perpetual succession. For the purposes of the Local Government Act 2002, the council must be treated as if it were the sole shareholder of Auckland Transport.

### Objectives and contribution to 10-year budget

Auckland Transport's objectives and contribution to the long-term plan are aligned with the Transport and Access Outcome of the 10-year budget, the Government Policy Statement on land transport, and the recommendations of the 2018 Auckland Transport Alignment Project.

Auckland Transport's approach to contribute to the Auckland Plan outcomes is to:

- help people travel safely
- improve access to frequent and attractive public transport
- encourage walking and cycling
- make best use of existing networks
- support growth, urban redevelopment and regeneration
- manage the impacts of the transport system on the environment
- ensure value for money.

Auckland Transport also has a key focus on its customers, and work to improve the customer experience of the transport system. It will supplement this with a major focus on how it engages with Auckland's communities, especially when making major investments which can entail disruption to networks while work is done.

To make the most of the available funding and resources, Auckland Transport is committed to continuous review and improvement of its operations and will work with the NZ Transport Agency to seek to optimise the funding of its programme, both capital and operating.

### Activities

The activities of Auckland Transport are centred on delivering transport services, such as:

- construction and maintenance of roads, footpaths, and streetscape amenities
- providing public transport facilities and services, including bus, rail and ferry services, and their associated infrastructure
- operating traffic signal networks
- providing parking facilities and enforcement
- establishing and promoting road safety and school travel initiatives.

For information on the above activities, actual performance, key performance targets and other measures set out in the 10-year Budget 2018-2028 see the groups of activities section in Volume 1 of the Auckland Council Annual Report 2018/2019.

### Directors

- |                                |                                       |  |
|--------------------------------|---------------------------------------|--|
| • Dr Lester Levy (Chairperson) | • Wayne Donnelly (Deputy Chairperson) | • Kylie Clegg  |
| • Sir Michael Cullen           | • Mary-Jane Daly                      | • Raewyn Bleakley (NZTA appointment – resigned October 2018) |
| • Mark Gilbert                 | • Dr Jim Mather                       |  |
| • Dame Paula Rebstock          |                                       |  |

## Section H: Council-controlled organisations



### Overview

Panuku Development Auckland Limited (Panuku) plays a significant role in achieving the Homes and Places and Belonging and Participation outcomes in the 10-year budget. This is through regenerating town centres, facilitating housing development and creating public spaces for the future. Redevelopment of town centres optimises and integrates good public transport outcomes, efficient and sustainable infrastructure and quality public services and amenities.

Panuku also manages the council's properties not immediately required for service delivery, and commercial properties owned by Auckland Transport and the council that are held to generate revenue.

Panuku's aim is to achieve an overall balance of commercial and strategic outcomes.

### Objectives and contribution to 10-year budget

The objectives of Panuku are to:

- facilitate redevelopment of urban locations agreed to by council
- accommodate residential and/or commercial growth in those locations
- redevelop Auckland's waterfront
- optimise Auckland Council's property portfolio
- contribute to the management of council owned properties which are currently not used for the delivery of council services.

### Activities

Panuku's activities cover four broad areas:

- redevelopment of urban locations and council owned land within the rural urban boundary
- redevelopment of council non-service property and where appropriate, review of council service property
- management of council non-service property and a range of other council owned commercial assets
- other property related services such as property advice, acquisition and disposals.

For information on the above activities, actual performance, key performance targets and other measures set out in the 10-year Budget 2018-2028 see the groups of activities section in Volume 1 of the Auckland Council Annual Report 2018/2019.

### Directors

- |   |   |   |
|---|---|---|
| <ul style="list-style-type: none"> <li>• Richard Aitken (Chairperson, resigned October 2018)</li> <li>• Adrienne Young-Cooper (Chairperson, commenced November 2018)</li> </ul> | <ul style="list-style-type: none"> <li>• Susan Macken (Deputy Chairperson)</li> <li>• Richard Leggat</li> <li>• Mike Pohio</li> </ul> | <ul style="list-style-type: none"> <li>• David Kennedy</li> <li>• Paul Majurey</li> <li>• Martin Udale</li> </ul> |
|---|---|---|

## Section H: Council-controlled organisations



### Overview

Regional Facilities Auckland (RFA) is responsible for providing a regional approach to running and developing Auckland's arts, culture, heritage, leisure, sport and entertainment venues including Aotea Centre, Aotea Square, Auckland Art Gallery Toi o Tāmaki, Auckland Town Hall, Auckland Zoo, Bruce Mason Centre, The Civic, Mt Smart Stadium, North Harbour Stadium, Queens Wharf, Western Springs Stadium and New Zealand Maritime Museum.

### Objectives and contribution to 10-year Budget

The objectives of RFA include:

- engage Auckland's communities through programmes, events and exhibitions
- reach Auckland's communities, by providing events all Aucklanders can attend
- provide for future generations of Aucklanders by ensuring collections and infrastructure support rich experiences.

These objectives shall be facilitated through RFA's management of assets and the funding decisions and ensuring that as an organisation it is sustainable.

### Activities

RFA's activities include the following:

- act as a regional voice for arts, culture, heritage, leisure, sports and entertainment issues
- advocate, co-ordinate and contribute to council's strategic thinking for investing in new collections and arts, cultural, heritage, leisure, sport and entertainment facilities for Auckland
- develop, with a regional perspective, a range of fit-for-purpose arts, cultural, heritage, leisure, sport, entertainment and events venues that are attractive to the residents and businesses of the region, and to its visitors
- plan for and implement regionally identified projects
- Nurture region-wide arts, cultural and heritage activities and organisations
- secure Auckland-exclusive international musicals, rock concerts, sporting events and art exhibitions to drive out of town visitation and investment in Auckland's economy.

For information on the above activities, actual performance, key performance targets and other measures set out in the 10-year Budget 2018-2028 see the groups of activities section in Volume 1 of the Auckland Council Annual Report 2018/2019.

### Directors

- |  |   |  |
|--|---|--|
| • Sir Donald McKinnon<br>(Chairperson, resigned<br>October 2018) | • Joanna Perry (Deputy<br>Chairperson)              | • Lisa Bates                                     |
| • Andrew Barnes<br>(Chairperson, commenced<br>November 2018)     | • Andrew Collow                                     | • Fabian Partigiani                              |
|  | • Geoff Clews                                       | • Gary Troup (resigned<br>October 2018)          |
|  | • Rukumoana Schaafhausen<br>(resigned October 2018) | • Candace Kinser<br>(commenced<br>November 2018) |
|  | • Jennifer Rolfe<br>(Commenced November<br>2018)    |  |

## Section H: Council-controlled organisations



### Overview

Watercare Services Limited (Watercare) is a lifeline utility providing water and wastewater services to 1.7 million people in Auckland. These services are vital for life, to keep people safe and help communities to flourish.

Watercare supplies reliable, high-quality drinking water to homes and businesses in the Auckland region and collects, treats and discharges their wastewater in environmentally responsible ways.

Watercare manages water and wastewater assets worth more than \$10 billion and plans and builds infrastructure to ensure it supports growth today and into the future.

Its activities and programmes are funded through user charges.

### Objectives and contribution to 10-year Budget

Watercare is to manage water resources and wastewater systems to contribute to:

- building resilience to natural hazards
- realising a compact city
- optimising, integrating and aligning water service provision and planning
- treasuring our coastline, harbours, islands and marine areas
- sustainably managing natural resources
- supporting rural settlements, living and communities
- improving the education, health and safety of Aucklanders
- growing a business friendly and well-functioning city
- enabling iwi to participate in the co-management of natural resources
- tackling climate change and increasing energy resilience.

### Activities

Watercare's activities include:

- collection, treatment and distribution of drinking water to the people of Auckland
- collection, treatment and disposal of wastewater for the people of Auckland
- transfer, treatment and disposal of trade waste
- provision of laboratory services in support of Watercare's business activities and the business community.

For information on the above activities, actual performance, key performance targets and other measures set out in the 10-year Budget 2018-2028 see the groups of activities section in Volume 1 of the Auckland Council Annual Report 2018/2019.

### Directors

- |                                    |                                       |  |
|------------------------------------|---------------------------------------|--|
| • Margaret Devlin<br>(Chairperson) | • Julia Hoare (Deputy<br>Chairperson) | • Dr Nicola Crauford                               |
| • Brendan Green                    | • Catherine Harland                   | • Dame Annette King<br>(resigned December<br>2018) |
| • David Thomas                     |                                       |  |





## Independent Auditor's Report

### To the readers of Auckland Council's annual report for the year ended 30 June 2019

I am the auditor of Auckland Council and its subsidiaries and controlled entities (together referred to as the Group). I have used my staff and resources, and appointed auditors and their staff to report on the information in the Auckland Council's annual report that I am required to audit under the Local Government Act 2002 (the Act). I refer to this information as "the audited information" in my report.

I am also required to report on:

- whether Auckland Council and Group have complied with the requirements of Schedule 10 of the Act that apply to the annual report; and
- the completeness and accuracy of Auckland Council and Group's disclosures about its performance against benchmarks that are required by the Local Government (Financial Reporting and Prudence) Regulations 2014.

I refer to this information as "the disclosure requirements" in my report.

## Opinion

### Unmodified opinion on the audited information other than the statement of service performance

In my opinion:

- the financial statements in Volume 3 on pages 13 to 109 present fairly, in all material respects, the financial position of the Auckland Council and Group as at 30 June 2019, and the financial performance and cash flows for the year then ended on that date, in accordance with Public Benefit Entity accounting standards;
- the funding impact statement in Volume 3 on page 8, presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the Auckland Council and Group's Long-Term Plan;
- the statement about capital expenditure for each group of activities in Volume 1 on pages 40 to 110, presents fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in the Auckland Council and Group's Long-Term Plan;
- the funding impact statements for each group of activities in Volume 1 on pages 40 to 110, present fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the Auckland Council and Group's Long-Term Plan; and

- the statements of service performance for local activities for each local board in Volume 2, sections 2.1 to 2.21 on pages 8 to 11 respectively, present fairly, in all material respects:
  - the activities for each local board for the year ended 30 June 2019, including the level of service achieved for the activities compared with the performance target or targets for those activities as set out in the local board agreement for the year; and
  - the reasons for any significant variation between the levels of service achieved and the intended levels of service.

**Qualified opinion on the statement of service performance – My work was limited in relation to the comparative year results reported for the building consent and non-notified resource consent processing time measures**

The statement of service performance, in Volume 1 on pages 98 to 99, includes performance measures for the timeliness of processing building consent and non-notified resource consent applications. For the year ended 30 June 2018, I was unable to determine whether the Council's reported results for these measures were materially correct. This was because of significant discrepancies between the information in the consenting systems and the underlying consent information. As a result, I provide no assurance on the comparative information in this year's statement of service performance for the timeliness of processing building consent and non-notified resource consent applications.

For the current year, in order to determine the level of performance achieved the Council has calculated the consent processing times manually based on a representative statistical sample, as explained in Volume 1 on pages 98 to 99. As a result, I was able to determine that the Council's reported results for the building consent and non-notified resource consent processing time measures for the current year were materially correct.

In my opinion, except for the matter explained above in relation to the comparative year results, which only affects building consent and non-notified resource consent processing time measures included as comparative information, the statement of service performance in Volume 1 on pages 38 to 110:

- presents fairly, in all material respects, the levels of service for each group of activities for the year ended 30 June 2019, including:
  - the levels of service achieved compared with the intended levels of service and whether any intended changes to levels of service were achieved;
  - the reasons for any significant variation between the levels of service achieved and the intended levels of service; and
  - it complies with generally accepted accounting practice in New Zealand.

## Report on the disclosure requirements

I report that the Auckland Council and the Group have:

- complied with the requirements of Schedule 10 of the Act that apply to the annual report; and
- made the disclosures about performance against benchmarks as required by the Local Government (Financial Reporting and Prudence Regulations 2014) in Volume 3 on pages 110 to 114, which represent a complete list of required disclosures and accurately reflects the information drawn from the Auckland Council and the Group's audited information and, where applicable, the Auckland Council Group's Long-Term Plan.

## Basis for our opinion on the audited information

I carried out my audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. My responsibilities under those standards are further described in the "Responsibilities of the auditor for the audited information" section of my report. I am independent of the Auckland Council and Group in accordance with the Auditor-General's Auditing Standards, which incorporate Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and I have fulfilled my other ethical responsibilities in accordance with these requirements.

I have fulfilled my responsibilities in accordance with the Auditor-General's Auditing Standards.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion on the audited information.

In addition to my audit and my report on the disclosure requirements, I have carried out an audit of an Amendment of the Auckland Council Group 2018-28 Long-Term Plan, and a range of other assurance engagements which are compatible with those independence requirements. Other than the audit of the Long-Term Plan Amendment and these engagements, and in exercising my functions and powers under the Public Audit Act 2001, I have no relationship with, or interests in, Auckland Council or its subsidiaries and controlled entities.

## Key audit matters

In addition to the matters discussed above in my qualified opinion on the statement of service performance, I have determined that the matters discussed below are key audit matters in relation to my audit for the year ended 30 June 2019.

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the audited information of the Auckland Council and the Group for the current period. In applying my professional judgement to determine key audit matters, I considered those matters that are complex, have a high degree of uncertainty, or are important to the public because of their size or nature. These matters were addressed in the context of my audit of the audited information as a whole, and in forming my opinion thereon.

Derivatives	How we addressed this matter
<p>The Group uses a number of different types of derivative financial instruments to mitigate risks associated with foreign currency and interest rate fluctuations that affect the Group's debt.</p> <p>The Group has in place a Treasury Management Policy that sets the parameters within which the Group must operate when entering into derivatives.</p> <p>The Group's derivatives are recognised at fair value and are measured using discounted cash flow valuation techniques based on inputs from independently sourced market information.</p> <p>As discussed in Note C2 to the financial statements, in Volume 3 on pages 60 to 62, the Group reported derivative assets with a fair value of \$444 million, and derivative liabilities with a fair value of \$1,848 million at 30 June 2019.</p> <p>For the year ended 30 June 2019, as discussed in Note A6 to the financial statements, in Volume 3 on pages 34 to 35, there was a net loss on derivatives of \$719 million recognised by the Group compared to a net gain of \$20 million in the prior year. This is primarily the result of the Group using derivatives to fix the interest rates paid on borrowings at rates higher than current market interest rates.</p> <p>I considered derivatives a key audit matter because there is judgement needed in their valuation, the values rely on certain assumptions, and the values are sensitive to small movements in market interest rates and foreign exchange rates. These can have a significant effect on the value of the derivatives and the consequential gain or loss that is recognised in the financial statements.</p>	<p>We obtained an understanding of the Group's Treasury Management Policy. We assessed whether derivative treasury controls operated effectively during the year.</p> <p>We assessed the Group's processes to record all derivatives, including their terms and conditions. We obtained independent confirmation that all the derivatives existed and were recorded, and that their terms and conditions were accurately recorded.</p> <p>We carried out audit procedures that were appropriate to the nature of the derivatives and the uncertainties associated with determining their fair value. These audit procedures included a mix of the following:</p> <ul style="list-style-type: none"> <li>• we estimated the fair value of a sample of derivatives using our internal valuation model;</li> <li>• for more complex derivative valuations, we engaged external valuers to estimate the fair value of a sample of derivatives;</li> <li>• we assessed the valuers' expertise and objectivity, and we considered the appropriateness of using the external valuers' work as audit evidence; and</li> <li>• we compared our estimate of fair value to the Group's fair value and assessed whether the Group's fair value was within an acceptable valuation range.</li> </ul> <p>We also reviewed the interest rate risk disclosures in note E1 to the financial statement, in Volume 3 on pages 81 to 82, and disclosures explaining the loss on derivatives in Note A6 to the financial statements, in Volume 3 on pages 34 to 35. We assessed whether the information provided in the financial statements, and in the other information sections of the Annual Report, would enable a reader to understand the potential impact on the fair value of interest rate swaps as a result of the significant drop in the interest rates during the financial year and subsequent to year end.</p> <p>I am satisfied that the derivative valuations recognised, and supporting information disclosed about derivatives, in the Auckland Council and Group's financial statements are reasonable and supportable.</p>

<b>Reporting performance on housing, transport and the three waters</b>	<b>How we addressed this matter</b>
<p>Housing, transport and all three waters (water, wastewater and stormwater) are high priority issues being dealt with by the Group in planning for the future of the city. The issues related to housing and transportation impact on perceptions about Auckland as an international city. They are also important as they impact the productivity, affordability and future growth of Auckland and New Zealand. All water networks should have sufficient capacity to adapt to Auckland's future growth, while also addressing the environmental impacts of Auckland's ageing networks.</p> <p><b>Housing</b></p> <p>Auckland's housing issues continue to be a key area of focus for the Government and members of the public. The Council has a key role in housing through:</p> <ul style="list-style-type: none"> <li>• establishing the rules for development under the Unitary Plan;</li> <li>• its role as a building consent authority responsible for issuing building consents and code of compliance certificates; and</li> <li>• its role in providing resource consents and working with developers to agree on the timely release of land for developments.</li> </ul> <p><b>Transport</b></p> <p>The Council and its CCOs, primarily Auckland Transport, have a key role in working with the Government to address a history of underinvestment in public transport and roads in Auckland. The aim is to enable efficient and cost effective transportation services around and through the city. The 2018-28 Long-Term Plan includes an ambitious programme of capital works for completion over the next 10 years. The delivery of this programme will be done in conjunction with other agencies. However, it will still require the Council to significantly increase its capacity to deliver such a programme of work. How Council manages not only its own delivery but also its coordination with other agencies and the construction sector will be watched closely.</p>	<p>We looked at the performance measures and the accompanying narrative about housing, transport and the three waters in the statement of service performance.</p> <p>We identified the aspects of performance that we consider to be material to readers of the Auckland Council's annual report and focused our work on these aspects. This included material performance measures relevant to housing, transport, water, stormwater and wastewater. Our work included:</p> <ul style="list-style-type: none"> <li>• testing the effectiveness of relevant internal controls;</li> <li>• confirming reported performance for material measures to underlying records on a sample basis; and</li> <li>• where appropriate obtaining third-party confirmation of performance.</li> </ul> <p>We assessed whether the results reported within the statement of service performance for the measures that impact the housing, transport and the three waters activities, together with the accompanying narrative, fairly reflected the Council and Group's performance in these important areas.</p> <p>Where information on these activities was included in the annual report but outside the statement of service performance, we reviewed the information for consistency with the audited financial statements and statement of service performance, and our knowledge obtained in the audit of the Auckland Council and Group. This knowledge included information from:</p> <ul style="list-style-type: none"> <li>• our review of relevant Auckland Council and Group reports, meeting minutes, and supporting evidence;</li> <li>• discussions with governing bodies and management of the Auckland Council and Group; and</li> <li>• discussions with other public sector agencies involved in Auckland matters.</li> </ul>

<p><b>The three waters - water supply, wastewater and stormwater</b></p> <p>The Council's 2018-28 Long-Term Plan highlighted that many of Auckland's beaches, harbours, streams and aquifers have poor water quality. The Council is planning on addressing these issues over the next 10 years. Some of this work will be funded by water and wastewater charges, and the rest by a water quality targeted rate.</p> <p>To enable growth to continue to occur there are significant projects included in the Group's 2018-28 Long-Term Plan. Amongst other things these projects are aimed at addressing water quality issues and stormwater overflows in certain parts of the city.</p> <p>I considered these to be key audit matters because of the complexity of these issues and the need for innovative planning solutions and sustainable funding options, including the collaboration between key local stakeholders, CCOs and the Government. Significant funding is being directed at these activities to assist with the delivery of the agreed service levels.</p> <p>Given the criticality of these matters it is particularly important that Auckland Council is clear, accurate and informative in reporting on its performance against expectations in the annual report.</p>	<p>Other than the matter discussed above in our modified opinion on the statement of service performance comparative results for the two consent processing timeliness measures, I am satisfied that the information presented in the statement of service performance about housing, transport and the three waters is reasonable, and reflects both the role and performance of the Auckland Council and Group in the areas of housing, transport and the three waters.</p>
<p><b>Valuation of the weathertightness provision</b></p>	<p><b>How we addressed this matter</b></p>
<p>Auckland Council recognises its estimated liability towards the cost of repairing Auckland homes impacted by weathertightness issues. Auckland Council's obligation extends to multi-unit dwellings as well as single homes.</p> <p>As discussed in note D5 to the financial statements, in Volume 3 on pages 72 to 76, the Auckland Council and Group recognised a provision of \$238 million for the year ended 30 June 2019, a decrease of \$81 million since 30 June 2018. Multi-unit claims make up 85% of this provision.</p> <p>There are three different types of claims:</p> <ul style="list-style-type: none"> <li>• active claims (\$133 million): those which have been lodged and are progressing through the resolution process;</li> </ul>	<p>We read the actuary's valuation report and met with the actuary to understand:</p> <ul style="list-style-type: none"> <li>• the valuation methodology and any changes from last year;</li> <li>• the key inputs and assumptions and any changes from last year; and</li> <li>• the reasons for valuation changes from last year.</li> </ul> <p>We assessed the actuary's expertise for completing the work and their objectivity, including whether they had any other engagements or relationships with the Auckland Council and Group.</p> <p>We assessed the valuation methodology and assumptions for compliance with the requirements of the applicable financial reporting standard, and for reasonableness. We did this</p>

<ul style="list-style-type: none"> <li>• reported claims (\$33 million): those which have been lodged but are not yet progressing through the resolution process; and</li> <li>• unreported claims (\$72 million): those which might be made but that have yet to be lodged or identified but the Group has recognised a liability.</li> </ul> <p>I considered the valuation of the weathertightness provision a key audit matter because the valuation of the provision, by an actuary, is complex and subject to a high degree of judgement and estimation. There is also inherent uncertainty about how many claims might be made and what they might cost. Because of the uncertainty, the Auckland Council and Group also disclose an unquantified contingent liability.</p>	<p>based on our accumulated knowledge and experience of weathertightness issues for Auckland Council and other councils.</p> <p>We re-assessed the accuracy of last year’s estimates in light of the current year valuation, as well as claim activity and settlements during the year.</p> <p>We reconciled active claims data to representations from the Auckland Council’s lawyers. We made enquiries with the Auckland Council’s in-house legal team and the actuary about any recent claims, court decisions, or changes in legislation that significantly affect the Auckland Council and Group’s liabilities (for example, by increasing the scope or limitations period of claims).</p> <p>I am satisfied that the provision recognised in the Auckland Council and Group’s financial statements for weathertightness is reasonable and supportable. I am also satisfied with the disclosure of an unquantified contingent liability for possible further liability not currently recognised.</p>
<p><b>City Rail Link</b></p>	<p><b>How we addressed this matter</b></p>
<p>City Rail Link Limited (CRL) is a schedule 4A Crown Entity jointly owned by the Crown (51%) and Auckland Council (49%) who are known as the Sponsors.</p> <p>The Auditor-General is the auditor of City Rail Link Limited. The Company has prepared an Annual Report for the year ended 30 June 2019 and this has been subject to an independent audit completed on behalf of the Auditor-General.</p> <p>CRL is charged with building the city rail link. CRL’s Annual Report includes financial statements and a statement of performance which includes the statutory information the Company is required to report and provides an update on the status of the project.</p> <p>CRL’s audit focused on ensuring that the financial statements and the performance information presented fairly, in all material respects, the Company’s financial and performance results and complied with generally accepted accounting practice in New Zealand.</p>	<p>We obtained CRL’s audited financial statements and ensured that the results and disclosures were recognised in Auckland Council’s financial statements as required.</p> <p>Where information on the city rail link project was included in the Council and Group’s annual report, we reviewed the information for consistency with CRL’s audited financial statements and statement of performance, and our knowledge obtained in the audit of both CRL and Auckland Council. This knowledge included information from:</p> <ul style="list-style-type: none"> <li>• our review of relevant Auckland Council reports, meeting minutes, and supporting evidence;</li> <li>• discussions with Auckland Council’s governing body and management; and</li> <li>• discussions with other public sector agencies involved in Auckland matters.</li> </ul> <p>I am satisfied that the information presented about the city rail link project is reasonable, and reflects both the role and performance of the Auckland Council and Group.</p>

<p>As discussed in Note F3 to the financial statements, in Volume 3 on pages 93 to 94 the Council is committed to funding 50% of the \$4.4 billion cost of this project.</p> <p>The July 2019 signing of The Link Alliance (Alliance), disclosed as a subsequent event in Note F4 to the financial statements, in Volume 3 on page 100 of the Council and Group’s Annual Report, is a significant milestone for the project and effectively concludes the major procurement activity.</p> <p>I considered this a key audit matter because of the significance of this project to Auckland Council, both in terms of the cost and the level of public interest in ensuring the project delivers on its transport goals.</p>	
<p><b>Valuation of operational and infrastructure assets</b></p>	<p><b>How we addressed this matter</b></p>
<p>The Group owns a large portfolio of operational and infrastructure assets. At 30 June 2019 the Group had infrastructure assets of \$31.906 billion, operational assets of \$9.255 billion and restricted assets of \$7.035 billion.</p> <p>A number of asset classes are carried at fair value, with revaluations performed on a regular basis, or when the fair value is materially different to the carrying value. The accuracy of the valuation of material classes of assets depends on the completeness and accuracy of the underlying information, judgements of useful lives to determine depreciation and the appropriateness of the assumptions used in the revaluations. Some valuations are inherently more complex and involve the use of numerous data sources from several different parties. Because of the large value of the assets held by the Group a small movement in the valuation or expected useful life of some components can have a significant impact on the depreciation expense recognised in the financial statements.</p> <p>For all asset classes carried at fair value the Council assess annually whether there is a material difference between the fair value and carrying value of each asset class, which would trigger the need for a full revaluation. At 30 June 2019 the Council’s assessment was that no asset classes were carried at a value materially different to fair value and that no asset classes needed</p>	<p>For those asset classes not subject to a full revaluation we made enquiries of the Council and Group as to how it had determined that an item or asset class carried at valuation was not materially different from its fair value.</p> <p>We assessed the reasonableness of the Council and Group’s assertions. This included:</p> <ul style="list-style-type: none"> <li>• considering whether the assessment methods and assumptions applied to each asset class are appropriate;</li> <li>• assessing the application of these methodologies, including testing calculations and considering the sensitivity of changes to key assumptions; and</li> <li>• where price indices were used, confirming that the indices are appropriate, and confirming movements to published indices. Where market information was used assessing the appropriateness of that market information.</li> </ul> <p>Where an analysis of the market movements was undertaken through the use of an independent valuer:</p> <ul style="list-style-type: none"> <li>• we assessed the valuer’s expertise for the work and their objectivity, including reading their terms of engagement and considering the existence of other engagements or relationships; and</li> </ul>



<p>revaluation, other than marina structures which were scheduled for a full revaluation. Marina structures account for only \$124 million (1.3%) out of total operational assets.</p> <p>The other large more complex asset classes carried at fair value include:</p> <p>Water, wastewater and stormwater: These asset classes account for \$12.440 billion (38.9%) of the Group's total infrastructure asset balance. Each asset class is broken down into numerous components with some of these being below ground. This makes verification of existence, condition and capacity for valuation purposes difficult.</p> <p>Roads: Roads account for \$10.075 billion (31.6%) of the total value of the infrastructure assets held by the Group. The valuation is determined by separately valuing each of the various components, such as land, formation and bridges, and adding these together. Different price indices are used for valuing each component and some components cannot be physically inspected as they are beneath other layers.</p> <p>I considered the valuation of operational and infrastructure assets a key audit matter because of the significance of the amounts involved and the judgements applied.</p>	<ul style="list-style-type: none"> <li>we read the valuer's assessment of the market movements from the date of the last revaluation, and discussed with the valuer as necessary.</li> </ul> <p>We evaluated whether the Council and Group have appropriately applied the requirements of the applicable financial reporting framework, including whether the disclosures in the financial statements were appropriate.</p> <p>We completed our work based on our experience and knowledge of other specialised operational and infrastructure valuations in the public sector.</p> <p>I am satisfied that the operational and infrastructure asset values in the Auckland Council and Group's financial statements are reasonable and supportable.</p>
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## Other Information

The Council is responsible for the other information included in the annual report. The other information comprises the information included in Volume 1 on pages 2 to 37, Volume 2 on pages 1 to 3 and sections 2.1 to 2.21 on pages 1 to 7 and pages 12 to 16 respectively and in Volume 3 on pages 1 to 7, pages 9 to 12 and pages 115 to 141, but does not include the audited information and the disclosure requirements.

My opinion on the audited information and my report on the disclosure requirements do not cover the other information.

My responsibility is to read the other information. In doing so, I consider whether the other information is materially inconsistent with the audited information and the disclosure requirements, or the knowledge obtained during my work, or otherwise appears to be materially misstated. If,

based on my work, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## **Responsibilities of the Council**

The Council is responsible for meeting all legal requirements that apply to its annual report. The Council's responsibilities include the preparation and fair presentation of the financial statements of the Auckland Council and Group in accordance with Public Benefit Entity accounting standards.

The Council's responsibilities arise under the Local Government Act 2002, the Local Government (Financial Reporting and Prudence) Regulations 2014 and the Financial Markets Conduct Act 2013.

The Council is responsible for such internal control as it determines is necessary to enable it to prepare the information I audit that is free from material misstatement, whether due to fraud or error.

In preparing the information I audit, the Council is responsible for assessing its ability to continue as a going concern. The Council is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to amalgamate or cease all of the functions of the Auckland Council and the Group, or there is no realistic alternative but to do so.

## **Responsibilities of the auditor for the audited information**

My objectives are to obtain reasonable assurance about whether the audited information, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of this audited information.

For the budget information reported in the audited information, my procedures were limited to checking that the budget information agreed to the Auckland Council and Group's Long-Term Plan.

As part of an audit in accordance with the Auditor-General's Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- I identify and assess the risks of material misstatement of the audited information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- I obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Auckland Council and Group's internal control.
- I evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council.
- I determine the appropriateness of the reported intended levels of service in the statement of service provision of the Auckland Council and Group and the statements of service performance for local activities for each local board, as a reasonable basis for assessing the levels of service achieved and reported.
- I conclude on the appropriateness of the use of the going concern basis of accounting by the Council and Group, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast a significant doubt on the Auckland Council and Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the audited information or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause Auckland Council and Group to cease to continue as a going concern.
- I evaluate the overall presentation, structure and content of the audited information, including the disclosures, and whether the audited information represents, where applicable, the underlying transactions and events in a manner that achieves fair presentation.
- I obtain sufficient appropriate audit evidence regarding the entities or business activities within the Group to express an opinion on the consolidated audited information. I am responsible for the direction, supervision and performance of the audit of the Auckland Council and Group. I remain solely responsible for my audit opinion.

I communicate with the Council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the Council with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the Council, I determine those matters that were of most significance in my audit and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in

extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

My responsibilities arise from the Public Audit Act 2001 and the Financial Markets Conduct Act 2013.



Greg Schollum  
Deputy Auditor-General  
Wellington, New Zealand  
26 September 2019

## NZX and other exchange listing requirements

This section provides information on waivers granted by NZX and other exchange listings

### Summary of waivers granted by NZX

For the purposes of NZX Listing Rule 3.7.1(g), Auckland Council (the council) discloses that, in the 12-month period preceding 30 June 2019, NZX has granted and published or the council has relied on the following waivers:

- a waiver from the Listing Rules 10.4.1(b) and 10.4.4 dated 3 October 2014; and
- a waiver from Listing Rule 5.2.3 dated 9 May 2018 in respect of its issue of \$200 million of fixed rate bonds (AKC110 Bonds).

### Listing Rules 10.4.1(b) and 10.4.4

Listing Rules 10.4.1(b) and 10.4.4, as modified by a ruling by NZX dated 9 August 2017, require an issuer to make available to security holders an annual report, which may be complied with in accordance with the Financial Markets Conduct Regulations 2014. NZX granted the council a waiver from Listing Rules 10.4.1(b) and 10.4.4 to the extent that these Rules require the council to send security holders a copy of its annual report. The effect of the waiver is that the council must send (on request), instead of its annual report, the council's audited consolidated financial statements together with the information required by the Listing Rules in relation to the annual report, and ensure its most recent annual reports are available in electronic format on the council's website and in hard copy at public locations designated by the council.

### Listing Rule 5.2.3

Listing Rule 5.2.3, as modified by a ruling by NZX dated 29 September 2015, requires a class of debt securities to be held by at least 100 members of the public holding at least 25% of the number of securities of that class issued, with each member of the public holding at least a Minimum Holding (as defined in the NZX Main Board / Debt Market Listing Rules).

In May 2018, NZX granted the council a waiver from Listing Rule 5.2.3 with respect to the AKC110 Bonds to allow the council to have fewer than 100 bondholders who are members of the public holding at least 25% of the AKC110 Bonds on issue for a period of six months from the quotation date of its initial offer of new bonds.

NZX granted the waiver in respect of the AKC110 Bonds from Listing Rule 5.2.3 on the following conditions:

- The council must clearly and prominently disclose the waiver and its implications in the product disclosure statement (PDS) for the AKC110 Bonds and any other offering document relating to an offer of AKC110 Bonds made during the period of the waiver;
- The council must clearly and prominently disclose the waiver, its conditions, and its implications in its half-year report and its annual report, for the period the waiver is relied upon;
- The council must disclose liquidity as a risk in the PDS for the AKC110 Bonds; and
- The council must notify NZXR as soon as practicable if there is a material reduction to the total number of members of the public holding at least a Minimum Holding of the AKC110 Bonds and/or the percentage of AKC110 Bonds held by members of the public holding at least a Minimum Holding.

The effect of these waivers from Listing Rule 5.2.3 is that the AKC110 Bonds may not be widely held and there may be reduced liquidity in those bonds.

## NZX and other exchange listing requirements

### Spread of public bondholders at 1 August 2019

Holding range	Number of bondholders	Value held (\$)	Percentage of bonds held
5,000 to 9,999	226	1,320,000	0.10
10,000 to 49,999	1,641	35,908,000	2.65
50,000 to 99,999	397	23,295,000	1.72
100,000 to 499,999	299	53,341,000	3.94
500,000 to 999,999	36	21,575,000	1.59
1,000,000 +	118	1,219,561,000	90.00
<b>Total</b>	<b>2,717</b>	<b>1,355,000,000</b>	<b>100.00</b>

### The top 20 listed bondholders of the Auckland Council Group as at 1 August 2019 were:

Entity	Holding (\$)
Westpac New Zealand Limited	228,500,000
Citibank Nominees (New Zealand) Limited	116,139,000
BNP Paribas Nominees (NZ) Limited 1	111,562,000
ANZ Bank New Zealand Limited	108,284,000
HSBC Nominees (New Zealand) Limited	83,711,000
ASB Bank Limited	41,500,000
HSBC Nominees (New Zealand) Limited O/A Euroclear Bank	40,991,000
Industrial and Commercial Bank of China (New Zealand) Limited	35,075,000
National Nominees New Zealand Limited	33,832,000
BNP Paribas Nominees (NZ) Limited 2	32,812,000
JPMorgan Chase Bank Na NZ Branch	31,974,000
ANZ Fixed Interest Fund	30,589,000
Hong Kong And Shanghai Banking Corporation Limited	25,000,000
ANZ Custodial Services New Zealand Limited	24,312,000
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited	24,000,000
Bank of New Zealand	21,466,000
FNZ Custodians Limited	19,498,000
Investment Custodial Services Limited	18,443,000
Westpac Banking Corporate NZ Financial Markets Group	14,018,000
TSB Bank Limited	14,000,000
	<b>1,055,706,000</b>

### Other exchange listings

In addition to NZX, Auckland Council Group also has foreign bonds listed on Swiss Exchange and Singapore Stock Exchange.

The Swiss Exchange requires a summary of main differences between IFRS and PBE Accounting Standards to be provided. The key differences are highlighted on the following pages.

## Main differences between IFRS and PBE Accounting Standards

### Introduction

Under the New Zealand Accounting Standards Framework, public sector public benefit entities (PBEs) apply PBE Accounting Standards. The New Zealand Accounting Standards Framework defines public benefit entities (PBEs) as reporting entities “whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders”. Many public sector entities are classified as PBEs. The Auckland Council Group (the group) is classified as a public sector PBE for financial reporting purposes and therefore the financial statements of the group have been prepared in accordance with PBE Accounting Standards.

The PBE Accounting Standards are primarily based on International Public Sector Accounting Standards (IPSAS). IPSAS are based on IFRS but are adapted to a public sector context where appropriate, by using more appropriate terminology and additional explanations where required. For example, IPSAS introduces the concept of service potential in addition to economic benefits in the asset recognition rules, and provides more public sector specific guidance where appropriate. This is in contrast with IFRS that are written for the for-profit sector with capital markets in mind.

The key differences in recognition and measurement between PBE Accounting Standards applicable to the group and IFRS (applicable to annual periods beginning on or after 1 July 2018) are set out below. Differences that impact only on presentation and disclosure have not been identified.

### PBE Accounting Standards with comparable IFRS equivalent

#### Formation of the Auckland Council Group

##### PBE

PBE IFRS 3 *Business Combinations* contains a scope exemption for business combinations arising from local authority reorganisations. This scope exemption is carried forward from NZ IFRS 3 (PBE) *Business Combinations*, the standard that was applicable to the group at the time it was formed on 1 November 2010 as a result of the amalgamation of eight predecessor Auckland local authorities.

Under the exemption, all assets and liabilities of the predecessor local authorities were recognised by the group using the predecessor values of those assets and liabilities. The initial value at which those assets and liabilities were recognised by the group is deemed to be their cost for accounting purposes.

##### IFRS

Without the scope exemption, the amalgamation of the predecessor local authorities into the group would have been accounted for as a business combination under IFRS 3 applying the acquisition method. Under the acquisition method, an acquirer would have been identified and all of the identifiable assets and liabilities acquired would have been recognised at fair value at the date of acquisition.

##### Impact

The impact of the above accounting treatment is that the carrying value of the assets and liabilities received were not re-measured to fair value and no additional assets and liabilities such as goodwill and contingent liabilities, or a discount on acquisition were recognised as would have been required if the transaction was accounted for as a business combination under IFRS 3.

#### Property, plant and equipment

##### PBE

In accordance with PBE IPSAS 17 Property, Plant and Equipment, PBEs are required to account for revaluation increases and decreases on an asset class basis rather than on an asset-by-asset basis.

##### IFRS

IFRS requires asset revaluations to be accounted for on an asset-by-asset basis.

##### Impact

Decreases on revaluation will be recognised in operating surplus except to the extent there is sufficient asset revaluation reserves surplus relating to the same class of assets under PBE Accounting Standards, and relating to the same asset under IFRS. This difference could result in higher operating results under PBE Accounting Standards where there is a decrease in the carrying value of an asset. This is because, to the extent that there is sufficient revaluation surplus in respect of the same asset class (as opposed to the same asset), the group recognises a revaluation decrease in asset revaluation reserves.

## Main differences between IFRS and PBE Accounting Standards

### PBE Accounting Standards with comparable IFRS equivalent (continued)

#### Borrowing costs

##### PBE

PBE IPSAS 5 Borrowing Costs permits PBEs to either capitalise or expense borrowing costs incurred in relation to qualifying assets. A qualifying asset is defined in PBE IPSAS 5 “as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale”. The group’s accounting policy is to expense all borrowing costs. As a consequence, borrowing costs are not included in the cost or revaluations of qualifying assets.

##### IFRS

IAS 23 Borrowing Costs requires capitalisation of borrowing costs incurred in relation to qualifying assets. The definition of a qualifying asset is identical to that definition in PBE IPSAS 5.

##### Impact

This difference results in the group’s property, plant and equipment value, and subsequent depreciation expense, being lower than they would be under IFRS. In addition, there is a higher interest expense in the periods in which qualifying assets are constructed.

#### Impairment of Assets

##### PBE

PBEs apply PBE IPSAS 21 Impairment of Non-Cash-Generating Assets or PBE IPSAS 26 Impairment of Cash-Generating Assets, as appropriate to determine whether a non-financial asset is impaired. PBEs are therefore required to designate non-financial assets as either cash-generating or non-cash-generating. Cash-generating assets are those that are held with the primary objective of generating a commercial return. Non-cash-generating assets are assets other than cash-generating assets.

The PBE Accounting Standards require the value in use of non-cash-generating assets to be determined as the present value of the remaining service potential using one of the following: the depreciated replacement cost approach; the restoration cost approach; or the service units approach.

Under the PBE Accounting Standards property, plant and equipment measured at fair value is not required to be reviewed and tested for impairment.

##### IFRS

IFRS does not provide specific guidance for the impairment of non-cash-generating assets. The value in use of an asset or a cash generating unit is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The guidance in IAS 36 Impairment of Assets applies to all property, plant and equipment, including those measured at fair value.

##### Impact

Assets whose future economic benefits are not primarily dependent on the asset’s ability to generate cash and may not be impaired under PBE Accounting Standards because of the asset’s ability to generate service potential might be impaired under IFRS due to limited generation of cash flows. The group’s asset values may therefore be higher under PBE Accounting Standards because some impairment may not be required to be recognised, that would be required to be recognised under IFRS. Further, the value in use of an asset may be different under PBE Accounting Standards due to differences in calculation methods. Finally, the fact that property, plant and equipment measured at fair value is not required to be reviewed and tested for impairment under the PBE Accounting Standards has no significant impact because these assets are subject to sufficiently regular revaluations to ensure that their carrying amount does not differ materially from their fair value.

### PBE Accounting Standards that have no IFRS equivalent / IFRS equivalent is not comparable

The following standards provide guidance on the same or similar topics but are not directly comparable. The comparison below identifies the key recognition and measurement difference.

#### Revenue from non-exchange transactions

##### PBE

The PBE Accounting Standards require revenue to be classified as revenue from exchange or non-exchange transactions. Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange. Non-exchange transactions are transactions that are not exchange transactions.

PBE IPSAS 23 Revenue from Non-Exchange Transactions deals with revenue from non-exchange transactions. The group’s non-exchange revenue includes revenue from general rates, fuel tax, grants and subsidies.



## Main differences between IFRS and PBE Accounting Standards

### PBE Accounting Standards that have no IFRS equivalent / IFRS equivalent is not comparable (continued)

Fees and user charges derived from activities that are partially funded by general rates are also considered to be revenue arising from non-exchange transactions.

The group recognises an inflow of resources from a non-exchange transaction as revenue except to the extent that a liability is also recognised in respect of the same inflow. A liability is recognised when a condition is attached to the revenue that requires that revenue to be returned unless it is consumed in the specified way. As the conditions are satisfied, the liability is reduced and revenue is recognised.

### IFRS

IFRS does not have a specific standard that deals with revenue from non-exchange transactions. IAS 20 Accounting for Government Grants and Disclosure of Government Assistance contains guidance relating to the accounting for government grants. Under IAS 20, government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate. In the case of grants related to assets, IAS 20 results in setting up the grant as deferred income or deducting it from the carrying amount of the asset.

### Impact

The group's accounting policy may lead to earlier recognition of revenue from non-exchange transactions than if it was recognised under IAS 20. It may also result in differences in asset values in relation to grants related to assets.

### Revenue from exchange transactions

#### PBE

As discussed above, the PBE Accounting Standards require revenue to be classified as revenue from exchange or non-exchange transactions.

PBE IPSAS 9 Revenue from Exchange Transactions deals with revenue from exchange transactions. The group's exchange revenue includes revenue from fees and user charges (water and wastewater charges, development contributions, infrastructure charges, port

operations, consents, licences and permits) and revenue from sales of goods.

The group recognises revenue related to services on a percentage of completion basis over the period of the service supplied. Revenue from sale of goods is recognised when the substantial risks and rewards of ownership have been passed to the buyer.

### IFRS

IFRS 15 Revenue from Contracts with Customers introduces a single revenue model for contracts with customers. It does not distinguish between sales of goods and services. It defines transactions based on performance obligations, which are promises to transfer goods or services in a contract with a customer.

The core principle of the standard is that revenue is recognised as a result of the entity satisfying performance obligations or promises to transfer goods or services at an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. These may be satisfied over time versus at a point in time based on when control of the good or service transfers to a customer.

### Impact

The group's accounting policy may result in a different timing of recognition of revenue from exchange transactions compared to IFRS 15..

For example, IFRS 15 contains more detailed guidance on identifying distinct performance obligations in a contract and allocating the consideration to these based on the stand alone selling price of the performance obligations. This may result in some revenue recognised earlier or later than under PBE IPSAS 9.

Further, IFRS 15 contains detailed guidance on the accounting treatment of variable consideration which may result in change in timing of recognising revenue related to items such as rebates and price concessions.

The impact of these differences may result in revenue recognised earlier/later in the contract period however it should not impact on the total revenue recognised during the contract term.

## Main differences between IFRS and PBE Accounting Standards

### PBE Accounting Standards that have no IFRS equivalent / IFRS equivalent is not comparable (continued)

#### Service Concession Arrangement (also known as Public Private Partnership Arrangements)

##### PBE

PBE IPSAS 32 Service Concession Arrangements deals with the accounting for service concession arrangements from the grantor's perspective. Service concession arrangements are more commonly known as Public Private Partnership (PPP) arrangements. Broadly, service concession arrangements are arrangements between the public and private sectors whereby public services are provided by the private sector using public infrastructure (service concession asset).

PBE IPSAS 32 requires the grantor (public entity) to recognise the service concession asset and a corresponding liability on its statement of financial position. The liability can be a financial or other liability or a combination of the two depending on the nature of the compensation of the operator.

A financial liability is recognised if the grantor compensates the operator by the delivery of cash or another financial asset. A non-financial liability is recognised if a right is granted to the operator to charge the users of the public service related to the service concession asset (liability for unearned revenue).

##### IFRS

IFRS contains no specific guidance addressing the accounting by the grantor (public entity) in a service concession arrangement. However, IFRS contains guidance for the operator's accounting (private entity).

##### Impact

Applying IFRS to service concession arrangements would not result in a significant impact on the group's financial position or financial performance as, in absence of specific guidance in NZ IFRS, prior to the adoption of PBE Accounting Standards, NZ practice has been to 'mirror' the accounting treatment of the private entity under IFRS which is consistent with the requirements of the PBE Accounting Standards.

#### Consolidated Financial Statements

##### PBE

PBE IPSAS 6 Consolidated and Separate Financial Statements includes guidance on assessing control to determine whether an entity should be included within the consolidated financial statements of the parent company. It also specifies the accounting

treatment for interests in other entities in the separate parent financial statements.

##### IFRS

IFRS 10 Consolidated Financial Statements contains guidance on assessing control using principles similar to those in PBE IPSAS 6 and provides additional guidance to assist in the determination of control where this is difficult to assess. IAS 27 Separate Financial Statements specifies the accounting treatment for interests in other entities in the separate parent financial statements.

##### Impact

The group does not believe that the application of IFRS 10 would result in more or fewer entities being consolidated than under PBE IPSAS 6.

#### Joint Arrangements

##### PBE

PBE IPSAS 8 Joint Ventures defines three types of joint ventures: jointly controlled assets, jointly controlled operations and joint ventures.

##### IFRS

IFRS 11 Joint Arrangements focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures.

##### Impact

The group does not believe that the application of IFRS 11 would result in a material change to the group's results and net assets.

#### Fair Value Measurement

##### PBE

There is no specific standard in the PBE Accounting Standards, however a number of PBE Accounting Standards contain guidance on the measurement of fair value in specific context (for example PBE IPSAS 17 Property, Plant and Equipment and PBE IFRS 9 Financial Instruments).

##### IFRS

IFRS 13 Fair Value Measurement does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

##### Impact

The application of IFRS 13 may result in differences in the measurement of certain property, plant and equipment compared to PBE IPSAS 17 and financial assets and liabilities compared to PBE IFRS 9.

## Glossary

Activity	A good or service provided by, or on behalf of the group and the council.
Amortisation	The systematic allocation of the value of an intangible asset over its useful life.
Annual budget	The budget that sets out what the group and the council will be working to achieve in a financial year, how it will spend its money, the level of service to be provided, and the level of rates and other revenue required to fund that spending.
Annual report	A document that tracks the group and the council's annual performance and reports against the relevant annual budget.
Associates	Entities that the group and/or the council have significant influence over. Our share of the associates' surplus/deficit and net assets is recorded in the group and the council financial statements.
Auckland Council	The local government of Auckland established on 1 November 2010. Auckland Council is made up of the Governing Body, 21 local boards and the Auckland Council organisation (operational staff).
Auckland Council Group	The group consists of the council, and its subsidiaries (council-controlled organisations and Ports of Auckland Limited), associates and joint ventures.
Auckland plan	A 30-year plan for Auckland. Required by the legislation that established Auckland Council, it is a comprehensive long-term strategy for Auckland's growth and development, and includes social, economic, environmental and cultural goals that support the vision for Auckland to become a world-class city.
Budget	The itemised formally adopted estimate of expected revenue and expenditure through 10-year budget/annual budget for a given period.
Capital expenditure (capex)	Spending on buying or building new assets and renewing existing assets.
City Rail Link (CRL)	A rail project in central Auckland designed to connect the Britomart Transport Centre with the Western Line at Mount Eden Railway Station. The project is delivered by City Rail Link Limited (CRL). Refer to note F3.
Council-controlled organisation (CCO)	A company or other entity under the control of local authorities through their shareholding of 50 per cent or more, voting rights of 50 per cent or more, or right to appoint 50 per cent or more of the directors. Some organisations may meet this definition but are exempted as CCOs.
Credit Support Annex (CSA)	An agreement which provides collateral for derivative transactions. The purpose is to reduce credit risk to a counterparty by providing security.
Depreciation	The charge representing consumption or use of an asset, assessed by spreading the asset's value over its estimated economic life. Depreciation includes amortisation of intangible assets unless otherwise stated.
Development contributions	Contributions from developers, collected by the council to help fund new infrastructure required by growth, as set out in the Local Government Act 2002.

## Glossary (continued)

Effective interest method	A method of calculating the amortised cost of a financial instrument and of allocating the interest revenue or expense over the relevant period by using the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.
Fair value	Amount which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.
Financial Markets Conduct Act 2013 (FMCA 2013)	The Financial Markets Authority regulates capital markets and financial services in New Zealand. It is governed by the Financial Markets Conduct Act 2013, which promotes confident and informed participation of businesses, investors, and consumers in the financial markets; and promotes and facilitates the development of fair, efficient, and transparent financial markets.
Governing Body	The Governing Body is made up of the mayor (elected city wide) and 20 councillors (elected on a ward basis). It shares its responsibility for decision-making with the local boards. It focuses on the big picture and on region-wide strategic decisions. Because each ward may vary in population, some wards have more than one councillor.
Grants and subsidies	Revenue received from an external agency to help fund an activity or service that the group and/or the council provide.
Green bonds	Bonds issued to finance projects or assets that deliver positive environmental outcomes or refinance corporate debt that supports these projects or assets.
Green bond framework	The document which outlines how the council proposes to issue and manage its green bonds on an ongoing basis.
Group of activities	One or more related activities provided by, or on behalf of the group and the council.
Infrastructure growth charge	Amount collected by Watercare Services Limited from property owners or developers applying for new connections to help fund new infrastructure required by growth.
Joint ventures	Contractual arrangements whereby the group or the council undertakes an economic activity that is subject to joint control or an interest in an entity with an external party.
Legacy councils	The eight former territorial authorities in the Auckland region that were disestablished on 31 October 2010. They comprise Auckland City Council, Auckland Regional Council, Franklin District Council, Manukau City Council, North Shore City Council, Papakura District Council, Rodney District Council and Waitakere City Council.
Local boards	Local boards represent their local communities and make decisions on local issues, activities and facilities. There are 21 local boards which share responsibility for decision-making with the governing body. Each board comprises between five and nine elected members. They make decisions on local matters, provide local leadership and build strong local communities.
Local Government Act 2002 (LGA 2002)	The act that defines the powers and responsibilities of territorial local authorities, such as Auckland Council.

## Glossary (continued)

Local Government (Auckland Council) Act 2009 (LGACA 2009)	The act establishes Auckland Council as a unitary authority for Auckland; and sets out its structure, functions, duties, and powers that differ from the general provisions applying to local authorities under the Local Government Act 2002 and certain other enactments. Also determines the management of transport and water supply and wastewater services for Auckland and sets out requirements relating to substantive council-controlled organisations.
Local Government (Financial Reporting and Prudence) Regulations 2014	Regulations promoting prudent financial management by local authorities requiring disclosure of performance in relation to benchmarks as a single entity and not including subsidiaries. The council must disclose, in its disclosure statements, its performance and that of its subsidiaries as a single entity.
Local Government (Rating) Act 2002 (LGRA)	Defines how territorial local authorities such as Auckland Council can set, assess and collect rates.
Local Government Funding Agency (LGFA)	An organisation jointly owned by most local authorities in New Zealand and the Crown to borrow on behalf of the sector.
Long-term plan	Also commonly referred to as the LTP and the 10-year Budget. This sets out the council's vision, activities, projects, policies, and budgets for a 10-year period.
Operating expenses	Expenditure resulting from normal business operations.
Optimised replacement cost	A valuation method used to estimate the price of constructing or buying a modern equivalent asset.
Rates	A charge against the property to help fund services and assets the council provides.
Service concession arrangement	A binding arrangement between grantor and operator in which, <ul style="list-style-type: none"> <li>• the operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and</li> <li>• the operator is compensated for its services over the period of the service concession arrangement.</li> </ul>
Service concession assets	Assets used to provide public services in a service concession arrangement.
Subsidiaries	Entities over which the group and the council have the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.
Ward	An administrative and electoral area of Auckland. There are 13 wards in Auckland.
Water space licence	Water space around Wynyard Quarter subject to a coastal permit which is held by the group for rental return and/or capital growth.





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