Te Rīpoata ā-Tau 2019/2020 Tirohanga whānui me ngā whakahaere ratonga

Auckland Council

Annual Report 2019/2020

Volume 3

Pokanga 3: Ngā Pūrongo Pūtea

Volume 3: Financial Statements

Auckland Council
Te Kaunihera o Tāmaki Makaurau

On the cover:
Runners at
Tamaki Drive

Mihi

Noho mai rā Tāmaki Makaurau,
moana waipiata,
maunga kākāriki.
Mai i ngā wai kaukau o ngā tūpuna,
ki ngā puke kawe 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 rongo 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.

Rārangi kōrero
Contents

Nau mai ki ngā kōrero mō mātou
Welcome to our story

Auckland is a fantastic city – diverse, vibrant, and naturally beautiful. Serving this city is a group of dedicated staff across the Auckland Council Group, meeting your needs by delivering essential and equitable services and investing in the future of our city.

This report tells the story of what we did across the group (the council, council-controlled organisations (CCOs), subsidiaries, associates, and joint ventures) over the past year on some of the multi-billion-dollar infrastructure projects and services delivered for Auckland to be the world-class city that New Zealand needs it to be.

It covers the period from 1 July 2019 to 30 June 2020 and reports against the amended 10-year Budget 2018-2028 (Long-term Plan 2018-2028). The report fulfils our obligations under the Local Government Act 2002 to report our past year's highlights, performance results and budget.

It has been a challenging last quarter of our financial year with the impacts of COVID-19. Throughout the report, we share how our readiness helped us respond to COVID-19, how our fast response supported those communities most in need, and how we came together to plan a recovery.

The Overview section contains a summary of our high-level financial and service performance information followed by an update on our strategic plans and priorities such as the Auckland Plan, Māori Outcomes, and our response to climate change. It also contains information on our structure – our Governing Body, Executive Leadership Team and our staff.

The Groups of Activities (GoA) section is a statement of service performance against our eight GoAs (one or more related activities provided by, or on behalf of, the group) as outlined in the 10-year Budget. For each GoA, we provide an update on the key projects that help us contribute to the six community outcomes as outlined in the Auckland Plan 2050, followed by a report against our performance measures and funding impact statements that sets out the sources and application of the operating and capital funding for the GoAs. COVID-19 impacts are featured as case studies for each of our GoA.

Finding your way around the volumes:

Volume 1
Volume 1: Overview and Service Performance

An overview of the group covering financial and non-financial performance of the group.

Volume 2
Volume 2: Local Board reports

A collection of individual annual reports for each of the 21 local boards, reporting financial and non-financial performance.

Volume 3
Volume 3: Financial Statements

The financial statements of the Auckland Council Group and Auckland Council for the year ended 30 June 2020.

Volume 4
Volume 4: Climate change risk

A summary of the group's climate-related financial risks and opportunities.

He kōrero mō tēnei kōwae

About this volume

This volume of the annual report contains the financial statements of Auckland Council Group (the group) and Auckland Council (the council) for the year ended 30 June 2020. The group includes the council, its subsidiaries (council-controlled organisations and Ports of Auckland Limited), associates and joint ventures.

The Auckland Council Annual Report 2019/2020 was adopted by Auckland Council on 29 October 2020.

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 2019/2020.

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 2019/2020 to provide readers with a clearer understanding of key information.

In addition to signposting, accounting policies are denoted by a box surrounding them and significant judgements and estimates are denoted by green highlights.

On 11 March 2020 the outbreak of COVID-19 was declared a global pandemic by the World Health Organisation. New Zealand entered COVID-19 Alert Level 4 on 26 March 2020 which entailed a full lockdown of all social and economic activity except for essential services. Lockdown restrictions were eased gradually until 8 June 2020 when physical distancing measures came to an end with COVID-19 Alert Level 1. The lockdown restrictions and ensuing financial instability have had a significant effect on the group. A summary of the impact is disclosed in Volume 1 of this annual report. Further details of the effect on the financial statements of the group and the council are provided in the notes to the financial statements.

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

He karere nā te Āpiha Tumu Arumoni o te wā

Message from the acting Group Chief Financial Officer

Kevin Ramsay

Auckland Council Group finances reflect the benefit of prudent financial management

The 2019/2020 financial year was one that demonstrated how the Auckland Council Group's prudent approach to managing its finances ensures resilience in the face of economic uncertainty.

Although the COVID-19 pandemic and drought significantly affected us towards the end of the financial year, we coped exceedingly well. The adaptability of our people and our agile work environment, along with our investment in technology and corporate property arrangements, ensured that we remained productive throughout the various alert levels.

The group's 10-year Budget 2018-2028 (Long-term Plan 2018-2028) outlines a $26 billion investment plan for Auckland's transport, water, housing, and environmental and community infrastructure. The 2019/2020 year was the second year of this plan, and despite the COVID-19 lockdown and physical distancing requirements in the final quarter of the year, we invested a record $2.6 billion in the city's assets, a $520 million increase on the prior year. This level of investment in our city is important to support its economic recovery and continue the delivery of the infrastructure to support development.

Highlights include:

- a $1.1 billion investment in transport infrastructure, including $258 million on the City Rail Link, $184 million on renewals of roads and footpaths, $104 million on the development of the rapid transit network, and $100 million city centre and waterfront projects to support the 36th America's Cup.
- a $748 million investment in water infrastructure, including $193 million on the water supply network, $397 million on the wastewater network, and $158 million on the stormwater network.

We use debt to fund our capital investment so that we spread the cost of those assets across the generations who will benefit from them. Our large capital investment during the year required us to increase our net debt to $9.9 billion, an increase of $1.3 billion over the previous year.

We continue to take a prudent approach to managing debt and our finances, keeping our net debt to revenue ratio under a benchmark 270 per cent. This is reflected in our credit ratings which are AA/Aa2 from S&P Global Ratings and Moody's Investors Services respectively. These ratings are amongst the highest in New Zealand and allow us to access a wide range of funding sources and help to keep our interest costs low. Because of the ongoing financial challenges from the COVID-19 pandemic and the drought, we expect our net debt to revenue ratio to increase to no higher than 290 per cent in the short-term. We are committed to bringing it back to prudent and sustainable levels as soon as we can.

Our revenue of $5.2 billion for the year was largely on budget despite a number of difficulties, especially in the fourth quarter.

At the end of the third quarter, there was strong public transport patronage, and an associated increase in Waka Kotahi NZ Transport Agency operating subsidies. Water usage was high due to a dry summer. Consenting revenue rose due to the increased number and complexity of building and resource consent applications. The Regional Fuel Tax revenue was tracking ahead of budget.

However, the fourth quarter saw the onset of the COVID-19 pandemic and drought becoming more severe, resulting in the water in our dams dropping below 50 per cent for the first time in more than 25 years. The physical distancing requirements of the COVID-19 pandemic caused a drop in the use of our services, which in turn resulted in a decrease in our revenues. Hardest hit were public transport revenues, fees from leisure centres, concerts and events, and port revenue. The Alert Level 4 lockdown also saw people travelling less, which led to a sharp drop in Regional Fuel Tax and parking revenue. Water restrictions implemented in May also led to a drop in water revenue.

In addition to the impacts of COVID-19 and the drought, development contribution revenue was less than budget. This was mainly due to lower than anticipated development activity, a higher than expected early take-up of credits for the demolition of existing houses by large developers, and an extension of billing timeframes to enable developers to make payments that align better to their cashflows.

As the decline in our revenue became apparent in the fourth quarter, we moved quickly to implement controls on costs such as recruitment, professional service fees and discretionary spend. To contain costs, we paused non-essential recruitment, reduced our operational activity to focus on essential services only, and voluntary staff pay cuts were implemented across the group. These controls helped achieve our targeted $23 million of operational cost savings along with a combination of specific initiatives such as organisational design changes and process improvements in Regulatory Services.

Overall, our operating expenditure of $4.4 billion was $173 million over budget. This reflects the impact of a number of uncontrollable costs such as our provisions for weathertightness and associated buildings defects, and contaminated land and closed landfills, which together were $103 million over budget. The drought also gave rise to an additional $24 million in unbudgeted repairs and asset operating costs as the dry earth cracked pipes and a larger amount of our water supply was sourced from the Waikato River.

We ended the year with an operating surplus before gains and losses of $752 million - $143 million over budget. The surplus includes a number of significant capital revenue sources, including $494 million of assets vested by developers and $438 million of capital grants and subsidies.

Looking ahead, we're expecting another very challenging year. In July 2020, we adopted our Emergency Budget 2020/2021 which outlines our plans to live within our means while continuing to deliver critical services for Auckland. When preparing the budget, we strived to maintain the investment our city needs in areas such as public transport and water infrastructure, as well as the environment. Despite an expected $450 million shortfall in revenues, we were able to accommodate a capital investment of a similar size to that delivered in 2019/2020. These investments will deliver an important long-term legacy for Auckland, while also helping to stimulate economic activity for the prosperity of all Aucklanders.

Kevin Ramsay
Acting Group Chief Financial Officer

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.

Aerial view of North Head, Devonport. Photo: Leon Rose

Te tauākī whakaaweawenga tuku pūtea a te Rōpū
Group funding impact statement
For the year ended 30 June 2020

$million	Actual 2020	Annual plan 2020	Actual 2019	Annual plan 2019
Sources of operating funding:				
General rates, uniform annual general charge, rates penalties	1,653	1,654	1,581	1,588
Targeted rates	230	230	214	213
Subsidies and grants for operating purposes	383	321	308	287
Fees and charges	1,270	1,411	1,285	1,348
Interest and dividends from investments	47	70	82	71
Local authorities fuel tax, fines, infringement fees and other receipts	536	445	502	430
Total operating funding	**4,119**	**4,131**	**3,972**	**3,937**
Applications of operating funding:				
Payment to staff and suppliers	2,915	2,822	2,632	2,588
Finance costs	434	453	457	467
Other operating funding applications	-	-	-	-
Total applications of operating funding	**3,349**	**3,275**	**3,089**	**3,055**
Surplus (deficit) of operating funding	**770**	**856**	**883**	**882**
Sources of capital funding:				
Subsidies and grants for capital expenditure	438	517	304	412
Development and financial contributions	156	258	178	204
Increase (decrease) in debt	1,165	792	180	592
Gross proceeds from sale of assets	108	255	168	177
Lump sum contributions	-	-	-	-
Other dedicated capital funding	-	-	-	-
Total sources of capital funding	**1,867**	**1,822**	**830**	**1,385**
Applications of capital funding:				
Capital expenditure:				
- to meet additional demand	665	887	601	980
- to improve the level of service	1,028	824	793	540
- to replace existing assets	609	761	581	658
Increase (decrease) in reserves	50	160	134	32
Increase (decrease) in investments	285	46	(396)	57
Total applications of capital funding	**2,637**	**2,678**	**1,713**	**2,267**
Surplus (deficit) of capital funding	**(770)**	**(856)**	**(883)**	**(882)**
Funding balance	**-**	**-**	**-**	**-**

He pito kōrero mō te tauākī whakaaweawenga tuku pūtea a te Rōpū
Notes to the group funding impact statement
For the year ended 30 June 2020

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 section of 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) and are rounded to the nearest million dollars, unless otherwise stated.

Annual plan figures

The annual plan figures presented in the funding impact statements of the group and the council are those included in the Annual Budget 2019/2020. 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 are $12 million unfavourable to plan. This small variance is principally made up of a $141 million shortfall in fees and charges and a $23 million shortfall in interest and dividends from investments. These shortfalls are substantially offset by a $91 million surplus to plan for local authorities' fuel tax, fines, infringement fees and other receipts and a $62 million surplus to plan for subsidies and grants for operating purposes. Details of these variances are outlined below.

Fees and charges

- Public transport fare revenue was $41 million below plan and parking revenue was $14 million below plan, driven by the COVID-19 Alert Levels 3 and 4 lockdowns. There was a significant reduction in public transport patronage as well as parking being free during this period. Public transport and parking revenue had not returned to pre-COVID levels after the lifting of restrictions.
- Revenue from port operations was $25 million lower than planned due to COVID-19 restrictions in New Zealand and overseas and negative impact on volumes from overseas operational factors such as strikes by the Maritime Union in Australia and delays in Asia, resulting in vessels being delayed or skipping Auckland.
- The budget for traffic infringement and fines revenue was included in Fees and charges but it is reported within Local authority fuel taxes, fines, infringement fees and other receipts. This has resulted in a $43 million shortfall against the plan.
- The COVID-19 lockdown and physical distancing measures that followed resulted in the closure of leisure centres and the cancellation of events, conventions and shows. The impact was $17 million less revenue than planned.

The unfavourable variances to plan were partly offset by regulatory revenue, which was $13 million above plan, due to consent applications being more complex than anticipated.

Notes to the group funding impact statement

Local authority fuel taxes, fines, infringement fees and other receipts

- As mentioned above, $46 million of traffic infringements and fines that are reported in this line were planned within Fees and charges.
- The group generated $20 million of additional rental revenue from new and renegotiated leases, particularly at the waterfront.
- Watercare's infrastructure growth charges which contribute towards capital investment in bulk infrastructure were $9 million higher than planned.
- The group received $21 million of unbudgeted one-off revenue during the year which included $13 million from the government reimbursing COVID-19 relief expenses and $8 million from the Department of Corrections for the maintenance of Auckland Prison's water and wastewater assets in perpetuity.

These favourable variances to plan were partly offset by $6 million lower Regional Fuel Tax income due to the COVID-19 lockdown which reduced fuel consumption in Auckland.

Subsidies and grants for operating purposes

- Funding received from the Waka Kotahi NZ Transport Agency (NZTA) was $50 million above plan. This included $42 million unbudgeted funding for loss of public transport farebox revenue during the COVID-19 Alert Levels 3 and 4 lockdowns and $8 million higher than expected administration subsidy on the capital programme.
- Regional Facilities Auckland received $6 million in wage subsidies from the government as a result of their revenue loss from venue closures, physical distancing and the impacts of border closures on touring shows and events during the COVID-19 pandemic.

Applications of operating funding

Applications of operating funding were $74 million unfavourable to plan. This is mainly because payments to staff and suppliers were $93 million higher than plan, partly offset by finance costs which were $19 million lower than plan.

Payments to staff and suppliers

- The group's repairs, maintenance and asset operating costs were $20 million higher than planned mainly because of the drought. Due to historically low dam levels, more water than normal had to be drawn from the Waikato River, significantly increasing the operating costs of the Waikato water treatment facilities. In addition, the drying of the ground caused a significant increase in cracks in water pipes.
- Employee holiday pay costs were $17 million higher than planned as a result of increases in hourly rates as well as entitlements following the Holidays Act 2003 compliance project, and less leave taken by employees in the fourth quarter due to COVID-19 travel restrictions.
- $9 million of unbudgeted termination benefits were incurred due to organisational restructures.
- $21 million of unbudgeted expenses were incurred directly in relation to the COVID-19 pandemic.

Finance costs

Finance costs were $19 million below plan due to a lower cost of funds than anticipated in the plan. The annual plan had assumed a cost of funds of 5.0% however due to central banks around the world increasing liquidity which lowered interest rates in response to the financial instability caused by the COVID-19 pandemic, the group's actual cost of funds reduced to 4.2%.

Source of capital funding

Sources of capital funding exceeded plan by $45 million. This was due to the increase in debt to fund shortfalls against budget from other sources of capital funding, and to ensure adequate funding going into the 2020/2021 year. The reasons for the shortfalls against plan are as follows:

Subsidies and grants for capital expenditure

Capital subsidies received from NZTA for roading and public transport capital projects were $78 million lower than plan. This was partly because the mix of capital projects which qualified for funding differed from what was anticipated in the plan. Capital expenditure was lower than planned, particularly in the fourth quarter with the COVID-19 lockdown and physical distancing limitations.

Notes to the group funding impact statement

Development contributions

Development contributions were $102 million below plan. This was mainly as a result of lower than anticipated development activity before the COVID-19 pandemic, higher than expected early take-up of demolition credits by large developers and an extension to the time at which developers are required to make payments.

Gross proceeds from sale of assets

The council's corporate strategy is to move towards more efficient and fit-for-purpose accommodation. Key to achieving this is the sale of several existing corporate properties. One of the key planned sales, the Graham Street building, settled at year end in the prior year. Sale of the Bledisloe car park, a piece of land above the future Aotea Station, has been deferred to future years when the CRL project is further advanced.

Applications of capital funding

Applications of capital funding are $41 million lower than the annual plan. This shortfall is made up of lower than planned capital expenditure of $170 million and a $110 million lower use of reserves than planned, partly offset against an increase in investments of $239 million.

Capital expenditure

Capital expenditure for the group was below plan mainly due to restrictions on capital expenditure as a result of the financial impact of the COVID-19 pandemic and the following lockdown and physical distancing measures.

Reserves

The plan assumed $110 million of payments towards the settlement of weathertightness and associated building defect claims, however this didn't eventuate due to the timing of court hearings for these claims.

Investments

The increase in investments reflects the group maintaining a steady level of cash holdings during the year. The budget assumed cash levels would be maintained at a much lower level.

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 2020	Actual 2019
Surplus of operating funding	**770**	**883**
Operating surplus items not included in operating funding		
Depreciation and amortisation	(963)	(922)
Vested assets	494	486
Development contributions	156	178
Capital grants and subsidies	438	304
Provision for remediation of weathertightness claims expense	(86)	(49)
Other revenue and expense items	(17)	(21)
Operating funding items not included in operating surplus		
Retrofit your home principal loan repayments	(6)	(5)
Dividends from associates and joint ventures	(34)	(63)
Operating surplus before gains and losses	**752**	**791**

Further detailed variance commentary can be found in the groups of activities funding impact statements in Volume 1 of this annual report, however, these variances are explained against the 10-year Budget 2018-2028.

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.

West coast wetlands.

Tauākī ā-moni whiwhi, ā-whakapaunga pūtea
Statement of comprehensive revenue and expenditure
For the year ended 30 June 2020

$million	Note	Group Actual 2020	Group Budget 2020	Group Actual 2019	Auckland Council Actual 2020	Auckland Council Budget 2020	Auckland Council Actual 2019
Revenue							
Rates		1,877	1,877	1,790	1,887	1,889	1,802
Fees and user charges		1,316	1,411	1,333	299	299	287
Grants and subsidies		821	837	612	58	60	60
Development and financial contributions		156	258	178	156	258	178
Other revenue		494	444	464	259	237	565
Vested assets		494	300	486	158	99	119
Finance revenue measured using effective interest method		9	9	15	26	38	38
Other finance revenue		1	2	1	91	105	85
Total revenue excluding other gains	A1	**5,168**	**5,138**	**4,879**	**2,934**	**2,985**	**3,134**
Expenditure							
Employee benefits	A3	997	960	911	575	567	532
Depreciation and amortisation	A4	963	965	922	292	292	268
Grants, contributions and sponsorship	A2	148	156	144	1,083	1,067	1,035
Other operating expenses	A2	1,864	1,706	1,633	782	641	631
Finance costs	A5	444	456	478	422	436	453
Total expenditure excluding other losses		**4,416**	**4,243**	**4,088**	**3,154**	**3,003**	**2,919**
Operating surplus/(deficit) before gains and losses		**752**	**895**	**791**	**(220)**	**(18)**	**215**
Net other losses	A6	(628)	-	(651)	(586)	-	(585)
Share of net (deficit)/surplus in associates and joint ventures		(15)	69	93	(17)	66	90
Surplus/(deficit) before income tax		**109**	**964**	**233**	**(823)**	**48**	**(280)**
Income tax expense	A7	74	39	58	-	-	-
Surplus/(deficit) after income tax		**35**	**925**	**175**	**(823)**	**48**	**(280)**
Other comprehensive revenue/(expenditure)							
Net gain on revaluation of property, plant and equipment		731	1,219	41	-	-	-
Tax on revaluation of property, plant and equipment		-	-	(11)	-	-	-
Movement in cash flow hedge reserve		-	-	(4)	-	-	-
Share of associates and joint ventures reserves		(146)	-	7	(146)	-	7
Reclassification of share of associates reserves		21	-	-	21	-	-
Fair value movement on revaluation of financial assets held at fair value through other comprehensive revenue and expenditure		164	-	-	154	-	-
Deferred tax written back to revaluation reserve on asset transfer		2	-	27	-	-	-
Total other comprehensive revenue		**772**	**1,219**	**60**	**29**	**-**	**7**
Total comprehensive revenue/ (expenditure)		**807**	**2,144**	**235**	**(794)**	**48**	**(273)**

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

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

Tauāki mō te tūāhua tahua pūtea

Statement of financial position

As at 30 June 2020

		Group			Auckland Council		
$million	**Note**	**Actual 2020**	**Budget 2020**	**Actual 2019**	**Actual 2020**	**Budget 2020**	**Actual 2019**
Assets							
Current assets							
Cash and cash equivalents	D1	298	100	294	243	80	205
Receivables and prepayments	D2	543	465	475	339	272	318
Derivative financial instruments	C2	6	7	3	9	2	9
Other financial assets	C3	88	152	56	92	155	61
Inventories		58	43	48	14	14	13
Income tax receivable		3	-	-	-	-	-
Non-current assets held-for-sale	F1	127	136	59	50	136	3
Total current assets		**1,123**	**903**	**935**	**747**	**659**	**609**
Non-current assets							
Receivables and prepayments	D2	58	12	41	19	7	8
Derivative financial instruments	C2	641	282	441	641	291	442
Other financial assets	C3	1,890	141	131	4,332	2,177	2,316
Property, plant and equipment	B1	50,421	50,645	48,196	16,151	15,880	15,717
Intangible assets	B2	684	525	640	286	253	301
Investment property	B3	603	761	629	485	577	498
Investment in subsidiaries*	F3	-	-	-	19,681	20,349	19,731
Investment in associates and joint ventures	F3	565	2,032	1,850	565	598	1,849
Other non-current assets		6	15	10	2	5	3
Total non-current assets		**54,868**	**54,413**	**51,938**	**42,162**	**40,137**	**40,865**
Total assets		**55,991**	**55,316**	**52,873**	**42,909**	**40,796**	**41,474**
Liabilities							
Current liabilities							
Bank overdraft	D1	3	-	3	-	-	-
Payables and accruals	D3	883	1,050	869	710	679	680
Employee entitlements	D4	127	111	106	69	61	59
Borrowings	C1	1,093	923	1,172	1,092	745	1,172
Derivative financial instruments	C2	5	5	9	3	3	8
Provisions	D5	99	62	171	87	57	165
Total current liabilities		**2,210**	**2,151**	**2,330**	**1,961**	**1,545**	**2,084**
Non-current liabilities							
Payables and accruals	D3	137	92	106	129	116	98
Employee entitlements	D4	5	5	5	1	2	1
Borrowings	C1	9,121	8,797	7,786	8,630	8,446	7,291
Derivative financial instruments	C2	2,715	963	1,839	2,706	941	1,830
Provisions	D5	416	168	299	396	161	290
Deferred tax liabilities	F2	1,538	1,498	1,466	-	-	-
Total non-current liabilities		**13,932**	**11,523**	**11,501**	**11,862**	**9,666**	**9,510**
Total liabilities		**16,142**	**13,674**	**13,831**	**13,823**	**11,211**	**11,594**
Net assets		**39,849**	**41,642**	**39,042**	**29,086**	**29,585**	**29,880**
Equity							
Contributed equity	D6	26,732	26,732	26,732	26,569	26,569	26,569
Accumulated funds	D6	2,451	3,242	1,788	(1,488)	(790)	(1,263)
Reserves	D6	10,666	11,668	10,522	4,005	3,806	4,574
Total equity		**39,849**	**41,642**	**39,042**	**29,086**	**29,585**	**29,880**

*Total investment in council-controlled organisations and entities listed in Local Government Act 2002 section 6(4) of Auckland Council for 2020 is $20 billion (2019: $20 billion).

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 o ngā hua uara

Statement of changes in equity

For the year ended 30 June 2020

Group

$million	Note	Contributed equity	Accumulated funds	Reserves	Total equity	Budget
Balance as at 1 July 2018		26,732	1,667	10,403	38,802	37,693
Adjustment on adoption of PBE IFRS 9		-	5	-	5	-
Adjusted balance as at 1 July 2018		**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	-
Total comprehensive revenue excluding PBE IFRS 9 adjustment above		**-**	**175**	**60**	**235**	**782**
Transfers (from)/to reserves	D6	-	(59)	59	-	-
Balance as at 30 June 2019	D6	**26,732**	**1,788**	**10,522**	**39,042**	**38,475**
Balance as at 1 July 2019		26,732	1,788	10,522	39,042	39,498
Surplus after income tax		-	35	-	35	925
Other comprehensive revenue		-	-	772	772	1,219
Total comprehensive revenue		**-**	**35**	**772**	**807**	**2,144**
Transfers (from)/to reserves	D6	-	628	(628)	-	-
Balance as at 30 June 2020	D6	**26,732**	**2,451**	**10,666**	**39,849**	**41,642**

Auckland Council

$million	Note	Contributed equity	Accumulated funds	Reserves	Total equity	Budget
Balance as at 1 July 2018		26,569	(997)	3,759	29,331	29,775
Adjustment on adoption of PBE IFRS 9		-	5	-	5	-
Adjusted balance as at 1 July 2018		**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	-
Total comprehensive revenue/(expenditure) excluding PBE IFRS 9 adjustment above		**-**	**(280)**	**7**	**(273)**	**310**
Transfers to/(from) reserves	D6	-	(90)	90	-	-
Return of equity		-	99	718	817	-
Balance as at 30 June 2019	D6	**26,569**	**(1,263)**	**4,574**	**29,880**	**30,085**
Balance as at 1 July 2019		26,569	(1,263)	4,574	29,880	29,537
Surplus/(deficit) after income tax		-	(823)	-	(823)	48
Other comprehensive revenue		-	-	29	29	-
Total comprehensive revenue		**-**	**(823)**	**29**	**(794)**	**48**
Transfers to/(from) reserves	D6	-	598	(598)	-	-
Balance as at 30 June 2020	D6	**26,569**	**(1,488)**	**4,005**	**29,086**	**29,585**

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

Tauāki mō ngā moni utu, whiwhinga rānei

Statement of cash flows

For the year ended 30 June 2020

$million	Note	Group Actual 2020	Group Budget 2020	Group Actual 2019	Auckland Council Actual 2020	Auckland Council Budget 2020	Auckland Council Actual 2019
Cash flows from operating activities							
Receipts from rates, grants and other services		4,667	4,785	4,328	2,667	2,750	2,479
Interest received		14	11	17	107	143	16
Dividends received		34	63	65	35	66	111
Payments to suppliers and employees		(2,908)	(2,829)	(2,682)	(2,370)	(2,427)	(2,165)
Income tax refund/(paid)		1	-	(14)	-	-	-
Interest paid		(438)	(453)	(466)	(415)	(433)	(433)
Net cash inflow from operating activities	F6	**1,370**	**1,577**	**1,248**	**24**	**99**	**8**
Cash flows from investing activities							
Repayment of loans to related parties		-	-	-	449	-	481
Advances to related parties		-	-	-	(701)	(165)	(618)
Proceeds from sale of property, plant and equipment, investment property and intangible assets		108	255	168	48	205	137
Acquisition of property, plant and equipment, investment property and intangible assets		(2,303)	(2,471)	(1,899)	(632)	(735)	(591)
Acquisition of other financial assets		(11)	(3)	(18)	(17)	(3)	(33)
Proceeds from sale of other financial assets		25	-	132	25	-	133
Investment in joint ventures		(258)	(203)	(65)	(258)	(203)	(65)
Advances to external parties		(58)	(50)	(1)	(38)	(50)	-
Proceeds from community loan repayments		-	4	-	-	4	-
Net cash outflow from investing activities		**(2,497)**	**(2,468)**	**(1,683)**	**(1,124)**	**(947)**	**(556)**
Cash flows from financing activities							
Proceeds from borrowings		4,129	2,082	2,432	3,160	1,923	1,379
Repayment of borrowings		(2,966)	(1,290)	(2,282)	(1,990)	(1,175)	(1,175)
Receipts from derivative financial instruments		7	-	35	7	-	35
Payments for derivative financial instruments		(44)	-	(69)	(39)	-	(70)
Repayment of finance lease principal		5	-	-	-	-	-
Net cash inflow from financing activities		**1,131**	**792**	**116**	**1,138**	**748**	**169**
Net increase/(decrease) in cash and cash equivalents and bank overdraft		**4**	**(100)**	**(319)**	**38**	**(100)**	**(379)**
Opening cash and cash equivalents and bank overdraft		291	200	610	205	180	584
Closing cash and cash equivalents and bank overdraft	D1	**295**	**100**	**291**	**243**	**80**	**205**

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.

Auckland city skyline at dawn.

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 council-controlled organisations, or CCOs[1]) 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), 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.

The budget figures presented in the financial statements are those included in the Annual Budget 2019/2020.

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 D1: Cash and cash equivalents
Note D2: Receivables and prepayments
Note D5: Provisions
Note F3: Investment in other entities

[1]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

Going concern

The group is in a net surplus position of $35 million (2019: $175 million) for the current financial year ended 30 June 2020 and, as of that date, the group and the council had net current liabilities of $1,087 million (2019: $1,395 million) and $1,214 million (2019: $1,475 million) respectively. As at 30 June 2020, the group's debt to revenue ratio increased to 264% from 245% in the prior financial year. This is still within the group's debt to revenue policy limit of 270%. Management expect cash operating revenue to be lower in financial year 2020/2021. This may result in debt to revenue temporarily exceeding the policy limit of 270%, peaking at around 290% as at 30 June 2021 as indicated in the Emergency Budget 2020/2021. However, debt to revenue should return to more prudent and sustainable levels in future financial years as the impacts of COVID-19 dissipate. The potential breach of the debt to revenue policy limit has been discussed with S&P Global Ratings and Moody's Investors Services, who continue to monitor the group and the council's financial position.

A review of the group and the council's financial conditions was undertaken by management and those charged with governance. The review confirmed that all entities in the group were able to continue as going concerns and were able to realise their assets, and discharge their liabilities, in the ordinary course of business. Accordingly, the use of the going concern assumption is appropriate in the preparation of the financial statements of the group and the council.

As outlined in the 10-year Budget 2018-2028, and each group entity's statement of intent 2020/2021, the council will continue to provide funding to all group entities except Watercare Services Limited and Ports of Auckland Limited, and will maintain its loan facilities with Watercare Services Limited. The boards of both Watercare Services Limited and Ports of Auckland Limited have also confirmed their going concern status and prepared their financial statements on the going concern basis.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Auckland Council and its CCOs and subsidiaries as at 30 June 2020.

CCOs and subsidiaries are entities controlled by the group. Control is achieved when the group has the power to govern their financial and operating policies. In order to establish control, the controlling entity presently have exercisable power to govern decision making to be able to benefit from the activities of the other entity.

Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements from the date the group gains control until the date the group ceases to control the subsidiary. The accounting policies of controlled entities are consistent with the policies adopted by the controlling entity, or if not, adjustments are made to the consolidated financial statements to bring alignment of subsidiaries with the group's accounting policies. All intra-group balances, transactions, income, expenses, and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

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 % 2020	Percentage ownership % 2019
Auckland Transport	Owns the public transport network and manages the transport infrastructure and services in Auckland. **Auckland Transport is a body corporate with perpetual succession and is treated under the LGACA 2009 as if Auckland Council is its sole shareholder.*	Yes	*	*
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 provides container bulk cargo handling, freight hubs, cruise industry facilities, and other services.	No	100	100
Regional Facilities Auckland	Supports and promotes the arts, culture, heritage, leisure, sports and entertainment, and owns and manages the venues for these activities. **Regional Facilities Auckland is a charitable trust of which Regional Facilities Auckland Limited, a 100% owned subsidiary of Auckland Council, is the sole trustee.*	Yes	*	*
Watercare Services Limited	Provides water and wastewater services, and owns and operates the water and wastewater infrastructure. *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.*	Yes	100	100

Significant restrictions

Despite Auckland Council's ability to control its subsidiaries, there are significant restrictions on the ability to access the assets of Regional Facilities Auckland and Watercare Services Limited.

- Regional Facilities Auckland is a charitable trust, Auckland Council is unable to access its assets.
- In terms of the Local Government (Auckland Council) Act 2009 section 57, Auckland Council may not receive a dividend or distribution of surpluses from Watercare Services Limited.

Implementation of new and amended standards

PBE Standards on interests in other entities:

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

Basis of reporting

Implementation of new and amended standards (continued)

The New Zealand Accounting Standards Board issued these standards to incorporate the equivalent standards issued by the International Public Sector Accounting Standards Board into PBE Standards. These standards replace PBE IPSAS 6 *Consolidated and Separate Financial Statements*, PBE IPSAS 7 *Investments in Associates* and PBE IPSAS 8 *Interests in Joint Ventures*.

The group adopted these standards with effect from 1 July 2019. The key changes introduced by the new standards and the expected impact on the group are as follows:

(a) Control: The new standards introduce an amended definition of control including extensive guidance on this definition, which if applicable, result in consolidation of entities that are not owned by virtue of shareholding.

The adoption of new standards has not resulted in the consolidation of additional entities.

(b) Investment entities: The standards introduce the concept of an "investment entity". They exempt investment entities from consolidating controlled entities and instead require investment entities to recognise controlled entities at fair value through surplus or deficit.

These requirements do not apply to the group, as neither the council nor any of its controlled entities meet the definition of an investment entity.

(c) Joint arrangements: PBE IPSAS 37 introduces a new classification of joint arrangements, sets out the accounting requirements for each type of arrangement (joint operations and joint ventures), and removes the option of using the proportionate consolidation method.

The group has reclassified its interests in jointly controlled entities as joint ventures under the new standards and will continue to account for these interests using the equity method of accounting.

(d) Disclosures of interests in other entities: The standards require PBEs to disclose information of their interests in other entities, including some additional disclosures that are not currently required under PBE IPSAS 6, 7 and 8.

This will result in additional disclosures for the group regarding the group's controlled entities, associates and joint arrangements.

Impairment of Revalued Assets (Amendments to PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 *Impairment of Cash-Generating Assets*)

The amendments change the scope of PBE IPSAS 21 and PBE IPSAS 26 to include assets measured at revalued amounts under the revaluation model in PBE IPSAS 17 *Property, Plant and Equipment* and PBE IPSAS 31 *Intangible Assets* ("revalued assets"). As a result of the amendments, revalued assets are subject to the same impairment assessment requirements as assets that are measured using the cost model. Consequential amendments were also made to PBE IPSAS 17 and PBE IPSAS 31.

Other than extending the scope of the group's accounting policy on impairment to include revalued assets, there have been no other changes to the group's financial statements as a result of these amendments. The adoption of these amendments resulted in an immaterial impact on the financial statements.

PBE IPSAS 39 *Employee Benefits*

PBE IPSAS 39 replaces the previous standard on employee benefits, PBE IPSAS 25 *Employee Benefits*. PBE IPSAS 39 is based on IPSAS 39, which was issued by the IPSASB to update its standards for the amendments to IAS 19 by the IASB during the 2011-2015 period.

Basis of reporting

Implementation of new and amended standards (continued)

The new standard:

- amends the short-term employee benefit definition to be those employee benefits that are expected to be settled wholly before 12 months after the end of the reporting period in which the employees render the related service;
- removes the option to defer the recognition of certain actuarial gains and losses arising from defined benefit plans (the "corridor approach");
- eliminates some of the presentation options for actuarial gains and losses arising from defined benefit plans;
- introduces the net interest approach, which is to be used when determining the defined benefit cost for defined benefit plans; and
- structures the disclosures for defined benefit plans according to explicit disclosure objectives for defined benefit plans.

As the group does not have material defined benefit plans the new standard has not impacted the financial statements.

Standard issued but not yet effective

PBE IPSAS 41 *Financial Instruments*

PBE IPSAS 41 *Financial Instruments* was issued in March 2019. This standard supersedes PBE IFRS 9 *Financial Instruments*, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. Although the group has not assessed the effect of the new standard, it does not expect any significant changes as the requirements are similar to PBE IFRS 9.

PBE FRS 48 *Service Performance Reporting*

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 1 January 2022 following consultation that has been initiated by the External Reporting Board. The group believe the application of PBE FRS 48 will not have any significant impact on its statement of performance as the group has well established service performance reporting processes.

Section A: Results of the year

This section focuses on the financial 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, amortisation, and other costs.

The notes in the section are as follows:

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 and 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, fees and user charges derived from activities that are partially funded by rates. The group and the council's significant items of revenue are recognised and measured as follows:

Type	Recognition and measurement
Rates	Rates are set annually by resolution of the council and relate to a particular financial year in accordance with the Local Government (Rating) Act 2002. Rates comprise general and targeted rates and are stated net of rates remissions. Rates revenue is recognised at the date of issuance of ratings notice and is measured at the present value of cash received or receivable.
Grants and subsidies	Grants and subsidies are recognised 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 when received at fair value as grants and subsidies received in advance. As the conditions are satisfied, the carrying amount of the liability is reduced and an equal amount is recognised as revenue.
Development contributions	Development contributions are charged for new property developments to contribute to the group's costs of building supporting infrastructure such as stormwater, roads and footpaths. Revenue is recognised at the later of the point when the group is entitled to issue an invoice to developers for the contribution in accordance with milestones set out in the group's development contributions policy, and the point at which the group can provide the service for which the contribution was charged. The timing of recognition is dependent on the type of consent granted and the nature of the development.
Vested assets	Vested asset revenue represents infrastructure received from property developers who construct the infrastructure as a condition of development. Vested asset revenue is recognised when control of the asset is transferred to the group and the council and is measured at the fair value of the asset received.
Finance revenue	Finance revenue comprises interest revenue and realised gains from the early close-out of derivatives. Revenue is recognised using the effective interest method.
Dividend revenue	Dividend revenue is recognised when the group and the council's right to receive the dividend is established.
Fees and user charges	
Water and wastewater	Water revenue comprises the amounts received and receivable at balance date for water supplied to customers in the ordinary course of business. Wastewater revenue is a combination of a fixed charge and a volumetric charge based on a percentage of water used. Water and wastewater revenue includes estimated unbilled amounts for unread meters at balance date. As meter reading is cyclical, management applies judgment when estimating the daily average water consumption of customers between meter readings. Unbilled amounts from the last bill reading date to the end of the month are recognised as revenue.
Sale of goods	When the substantial risks and rewards of ownership have been passed to the buyer.
Port operations	Revenue from port operations includes revenue from marine services, ship exchange, berthage, goods wharfage, and collection and transport of containers. Revenue is recognised when the services are provided, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Section A: Results of the year

A1 Revenue (continued)

Accounting policy (continued)

Type	Recognition and measurement
Fees and user charges (continued)	
Consents	Building consents provide approval for specific building works on a specific site, and resource consents provide approval for projects that impact the environment or others. Consent revenue is recognised when consents are provided at the fair value of the amount receivable.
Licences and permits	On receipt of application as these are non-refundable.
Other revenue	
Regional fuel tax	Regional fuel tax is a tax of 10 cents per litre of fuel (plus GST) which is collected to fund transport projects. Revenue is recognised when the supply of fuel occurs in the Auckland region at the fair value of the amount received or receivable.

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

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Revenue from non-exchange transactions:				
Revenue from rates				
General	1,642	1,570	1,650	1,583
Targeted	224	208	226	208
Penalties	19	18	19	18
Rates remissions	(7)	(5)	(7)	(5)
Discounts	(1)	(1)	(1)	(2)
Total revenue from rates	**1,877**	**1,790**	**1,887**	**1,802**
Revenue from transfers				
Sales of goods and services	308	355	79	91
Vested assets	494	486	158	119
Fines and infringements	46	47	3	4
Consents, licences and permits	219	195	215	192
Capital grants and subsidies	438	304	43	39
Operating grants and subsidies	383	308	15	21
Regional fuel tax revenue	144	156	144	156
Other transfer revenue	135	100	65	37
Total revenue from transfers	**2,167**	**1,951**	**722**	**659**
Total revenue from non-exchange transactions	**4,044**	**3,741**	**2,609**	**2,461**
Revenue from exchange transactions:				
Water and wastewater	524	504	-	-
Sales of goods and services	-	2	2	-
Port operations	219	230	-	-
Development contributions	156	178	156	178
Finance revenue	10	16	117	123
Dividends received	2	4	-	343
Infrastructure growth charges	110	104	-	-
Other exchange revenue	103	100	50	29
Total revenue from exchange transactions	**1,124**	**1,138**	**325**	**673**
Total revenue	**5,168**	**4,879**	**2,934**	**3,134**

The annual rates revenue of the council for the year ended 30 June 2020 for the purposes of the Local Government Funding Agency Limited (LGFA) Guarantee and Indemnity Deed disclosure is $1.9 billion (2019: $1.8 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.

Section A: Results of the year

A1 Revenue (continued)

Local government disclosures

The council's rating base information relating to the preceding financial year as at 30 June 2019 is as follows:

	2019
Number of rating units	568,679
Total capital value of rating units (in $million)	741,261
Total land value of rating units (in $million)	491,550

Explanation of significant variances against budget

	Group		Auckland Council	
2020 $million	Actual	Budget	Actual	Budget
Total revenue	5,168	5,138	2,934	2,985

Group

Revenue is above budget by $30 million. The most significant reasons for the surplus are as follows:

- When new subdivisions are constructed the group receives vested assets from property developers such as roading, water connections and parks. During the year the group received $194 million more assets than budgeted from developments in Long Bay, Drury, Flat Bush, Hobsonville, Massey, Northcote and Orewa;
- Operating subsidies related to transport is $50 million higher than budget mainly because of $42 million of unbudgeted funding from NZTA for Public Transport farebox revenue that was forfeited during the COVID-19 lockdown period (see below). Further, Auckland Transport received a higher than expected administration subsidy on the capital programme;
- 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 $9 million higher than budget as a result of the high level of development in Auckland. In addition, Watercare also received $8 million one-off revenue from the Department of Corrections for the transfer and maintenance of water and wastewater assets at Auckland Prison in perpetuity;
- Revenue received for resource and building consents was $17 million higher than planned due to an increasing number of complex consents due to Auckland's increasing density; and
- $13 million of revenue was received from the government to reimburse COVID-19 relief expenditure incurred by Auckland Emergency Management.

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

- Lower development contribution revenue as a result of lower than anticipated development activity before the COVID-19 pandemic, higher than expected early take-up of demolition credits by large developers and an extension to the time at which developers are required to make payments resulted in $102 million less revenue for the financial year;
- Capital grants from NZTA were $78 million below budget due to a lower number of qualifying projects undertaken during the year than expected coupled with lower capital delivery than planned;
- Public transport fare revenue was $41 million below budget, and parking was $14 million below budget. This was due to free public transport and parking during the COVID-19 lockdown, and the low levels of public transport patronage after the lockdown. However, this was partly offset by an operating subsidy of the same amount from NZTA (See above); and
- Revenue from port operations was $25 million lower than planned due to COVID-19 restrictions in New Zealand and overseas and negative impacts on volumes from overseas operational factors such as the strikes in Australia and delays in Asia, resulting in vessels being delayed or skipping Auckland.

Section A: Results of the year

A1 Revenue (continued)

Explanation of significant variances against budget (continued)

Auckland Council

Revenue is lower than budget by $51 million. The largest contributors to this deficit are:

- Lower development contribution revenue as a result of lower than anticipated development activity before the COVID-19 pandemic, higher than expected early take-up of demolition credits by large developers and an extension to the time at which developers are required to make payments resulted in $102 million less revenue for the financial year;
- The decline in interest rates resulted in finance revenue earned from loans to CCO's and short-term cash deposits being $21 million below budget;
- Sales of goods or services was below budget by $20 million mainly due to decreased revenue from community facilities and services such as waste services and sports and recreational facilities as result of the COVID-19 lockdown; and
- Regional fuel tax was $6 million lower than budgeted mainly due to significantly decreased usage of fuel during the COVID-19 lockdown period.

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

- Several new housing developments in areas such as Long Bay, Drury, Flat Bush, Hobsonville, Massey, Northcote and Orewa have resulted in vested infrastructure assets being $59 million in excess of budget;
- Rental income exceeded budget by $18 million. The biggest increase was $9 million from newly added waterfront commercial activities and lease renewals in excess of budgeted amounts. Rents from Haumaru Housing joint venture ("Haumaru") which provides affordable rental housing for older people, was $6 million greater than budget. The joint venture is systematically refurbishing their residential care facilities, and this has resulted in rental income exceeding budget. $3 million relates to Auckland Film Studios which will be used for television series production; and
- Revenue received for resource and building consents was $19 million higher than planned due to an increasing number of complex consents arising from Auckland's increasing density.

Impact of the COVID-19 pandemic on revenue

The COVID-19 lockdown and the ensuing financial instability has significantly impacted the group and the council. Some of the areas with the greatest effect on revenue for the group are shown below. Management has estimated the impact from the COVID-19 pandemic, but, due to the complexity of the revenue streams, it is not possible to determine the effect with a high degree of certainty.

Source of revenue		Estimated impact $million
Targeted rates	The accommodation provider targeted rate was suspended due to the financial hardship being experienced by accommodation providers following a significant decrease in tourism and international border closure. This includes $3.3 million of previously collected rate remitted back to the ratepayers.	(3)
Port operations	Lower volumes and no cruise ships as a result of COVID-19 restrictions.	(16)
Sale of goods and services	Revenue from public venues, community facilities, public transport and parking was reduced during lockdown and during COVID-19 alert levels that required physical distancing.	(82)
Consents, licences and permits	Fewer applications were submitted during the lockdown and the ensuing economic slowdown.	(5)
Operating grants and subsidies	Operating subsidies were received from NZTA to cover reduced public transport fare revenue due to COVID-19, partly offset by a decrease in fundable roading and footpath maintenance costs. Wage subsidies were also received to support jobs within the group.	41
Rental revenue	Rent abatements were provided to several tenants during the lockdown.	(2)
Fines and infringements	Fines and infringements were not issued during the lockdown.	(10)
Other transfer revenue	COVID-19 relief costs were reimbursed by the government.	13
Regional fuel tax	Regional fuel tax decreased due to the reduced fuel usage during and after the lockdown.	(15)

Section A: Results of the year

A1 Revenue (continued)

Explanation of impact of the COVID-19 pandemic on revenue (continued)
Other transfer revenue includes $13 million for the group and the council, for COVID-19 expenses which were recharged to central government (refer to Note A2). In addition, operating grants and subsidies for the group includes $42 million from NZTA for the top up of lost public transport fare revenue due to COVID-19, and $6 million in COVID-19 wage subsidies to support 1,052 jobs.

Nature of assistance	Amount $million
Wage subsidy	6
NZTA subsidy top up to cover loss of public transport fare revenue	42
Cost of welfare packages and meals	9
Grants provided to community groups	3
Distribution, hireage, personal protective equipment purchases and other	1

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:

	Group		Auckland Council	
$million	2020	2019	2020	2019
Grants, contributions and sponsorship:				
Funding to CCOs	-	-	946	905
Other grants	148	144	137	130
	148	144	1,083	1,035
Outsourced works and services	274	286	16	18
Goods and services	509	482	205	208
Consultancy and professional services	116	135	38	51
Repairs and maintenance	348	288	177	139
Utilities and occupancy	73	71	35	33
Rental and lease	149	133	31	32
Net impairment of receivables	10	2	6	(3)
Fees paid to elected members	11	11	11	11
Fees paid to auditors	4	4	1	2

Impact of the COVID-19 pandemic
$21 million for the group and $14 million for the council was spent on managing the impact of the COVID-19 pandemic during the year. The nature of the expenditure and their amounts are disclosed in the table below.
Of this expenditure, $13 million was spent on emergency services, including the distribution of welfare packages and meals, grants to community groups and personal protective equipment purchases, were recharged to central government and the corresponding revenue was recognised in this financial year (refer to Note A1).

$million	Group	Auckland Council
Grants to community groups	2	2
Food and household goods for welfare packages and meals for the homeless at the Auckland City Mission	9	9
Venue hire costs (Spark Arena)	1	1
Other costs to manage COVID-19, including cleaning, ICT costs to manage working from home, communications, personal protective equipment and security	9	2
Total	**21**	**14**

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.

	Auckland Council	
$million	2020	2019
Auckland War Memorial Museum	32	32
MOTAT	16	14
Auckland Regional Amenities Funding Board	16	15

Explanation of significant variances against budget

	Group		Auckland Council	
2020 $million	Actual	Budget	Actual	Budget
Other operating expenses	1,864	1,706	782	641

<u>Group</u>

Other operating expenses were higher than budget by $158 million. Several items contributed to this:

- Due to inherent uncertainty around the provision for remediation of weathertightness and associated building defect claims, as well as the remediation and management of contaminated land and closed landfills, these costs are not budgeted for. Both had significant increases during the year. The provision for remediation of weathertightness claims increased by $86 million as a result of the high costs associated with multi-unit claims and the contaminated land and closed landfills provision mainly increased by $17 million due to an increase in climate change coastal adaptation costs associated with closed landfills;
- Other provisions increased by $17 million. This increase includes a provision made for future losses that the group expects to incur in relation to the Eden Park Trust loan, and a provision to remit interest on Retrofit Your Home scheme loans;
- Property, plant and equipment write-offs amounted to $26 million. This includes a $19 million write-off of Penlink and Mill Road project costs in advance of transferring these projects to NZTA;
- Repairs, maintenance and asset operating costs were $20 million higher than planned. The major underlying reason is the drought. Due to historically low dam levels, more water than normal had to be drawn from the Waikato River, which significantly increased the operating costs at the Waikato water treatment facilities. In addition, the drying of the ground caused a significant increase in cracks in water pipes; and
- Auckland Emergency Management team spent an unbudgeted $10 million on COVID-19 relief which included the delivery of basic food parcels and household goods to those in need during the lockdown.

These are partly offset by outsourced works and services which were $29 million below budget mainly due to delays in projects such as the Office Worksmart programme caused by COVID-19 lockdown, and the insourcing of certain streetscaping and maintenance services.

Section A: Results of the year

A2 Operating expenses (continued)

Explanation of significant variances against budget (continued)

Auckland Council

Other operating expenses were higher than budget by $141 million. As mentioned above, other operating expenses are over budget in relation to:
- the provisions for remediation of weathertightness and associated building defects and contaminated land and closed landfills ($103 million);
- the expected losses on the Eden Park Trust loan and remission of Retrofit Your Home scheme interest ($17 million); and
- COVID-19 relief costs ($10 million).

In addition, the council increased its provision for doubtful debts by $6 million due to the increased debtor balances and credit risk.

These are partly offset by outsourced works and services which were $12 million below budget mainly due to delays in the Office Work Smart Programme caused by the COVID-19 lockdown.

The remaining unfavourable 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:

	Group		Auckland Council	
$thousand	**2020**	**2019**	**2020**	**2019**
Audit of financial statements	**3,327**	**3,310**	**1,214**	**1,213**
Other assurance-related services:				
Review of interim financial statements	292	302	122	119
Assurance engagement related to foreign borrowings	43	43	43	43
Assurance engagement related to debenture trust deed	16	16	16	16
Required by legislation:				
Review of service performance	35	58	35	58
10-year Budget	24	111	24	111
	410	**530**	**240**	**347**
Other services:				
Cyber/cloud security	130	170	-	-
Central interceptor probity/evaluation	-	100	-	-
Enterprise model probity	131	110	-	-
Central Interceptor – Management Plan Review	126	-	-	-
Assurance review	48	70	-	-
Other*	27	60	-	-
	462	**510**	**-**	**-**
Total fees to auditors	**4,199**	**4,350**	**1,454**	**1,560**

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

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.

Section A: Results of the year

A3 Employee benefits (continued)

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Salaries and wages	907	834	533	499
Contributions to defined contribution schemes	27	25	15	13
Termination benefits	10	6	7	2
Other	53	46	20	18
Total employee benefits	**997**	**911**	**575**	**532**

Impact of the COVID-19 pandemic

One of the measures implemented by the group and the council to recover from the financial impact of the COVID-19 pandemic, was to reduce employee costs. In April 2020, the council executive leadership team volunteered to take a 10% salary reduction for six months (1 May to 31 October 2020). In May 2020, employees earning over $100,000 per annum were requested to take a voluntary salary reduction for six months (13 June to 13 December 2020) on a graduated scale:

- Salaries from $100,000 to $175,000 – a 5% reduction
- Salaries from $175,001 to $275,000 – a 7.5% reduction; and
- Salaries above $275,000 – a 10% reduction

Employees could select any percentage salary reduction (including 0%) and also could volunteer more. 57% of requested employees volunteered for a salary reduction. The salary reduction resulted in savings of $283,000 for the period 1 May to 30 June 2020 and will result in an estimated $2,700,000 savings for the period 1 July to 13 December 2020.

Another measure implemented was to reduce accumulating annual leave balances. Staff with leave in excess of 12 months entitlement were requested to use their excess annual leave (refer to Note D4).

Refer to Note D4 for the employee entitlement liability as at 30 June 2020 and 30 June 2019 and Note F5 for further information on the remuneration of key management personnel and elected representatives.

Explanation of significant variances against budget

	Group		Auckland Council	
2020 $million	**Actual**	**Budget**	**Actual**	**Budget**
Employee benefits	997	960	575	567

Group

Employee benefits were higher than budgeted by $37 million for several reasons:
- There was an increased spend on temporary staff and overtime to cover the workload from unfilled vacancies in specialist areas;
- Annual leave balances exceeded budgeted levels due to changes to the payroll following the completion of the Holidays Act 2003 compliance project in the council and several CCO's, as well as leave due to staff not taken during the COVID-19 lockdown; and
- Terminations benefits paid as part of the organisational restructure which were not included in the budget.

Auckland Council

Employee benefits were $8 million higher than budget mainly due to $7 million of unbudgeted termination benefits recognised as part of the organisational restructure. The remainder relates to an increase in annual leave balances as mentioned above, partially offset by savings from delays in filling vacancies because of the COVID-19 lockdown as well as measures such as pausing recruitment and reducing temporary staff to mitigate the adverse impact of COVID-19 pandemic.

Section A: Results of the year

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).

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	
Group of activity	**2020**	**2019**
Roads and footpaths	251	241
Public transport and travel demand management	100	101
Water supply	111	112
Wastewater	144	133
Stormwater	60	56
Local council services	2	2
Regionally delivered council services	243	233
Council controlled services	52	44
Total depreciation and amortisation (Notes B1 and B2)	**963**	**922**

Explanation of significant variances against budget

	Group		Auckland Council	
2020 $million	**Actual**	**Budget**	**Actual**	**Budget**
Depreciation and amortisation	963	965	292	292

Group

The favourable variance of $2 million to budget was primarily due to the timing of delivering of capital projects across the group.

A5 Finance costs

Accounting policy

Finance costs include interest expense, amounts paid or payable on interest rate swaps, amortised borrowing costs, net realised losses on the early close-out of derivatives and costs directly incurred in managing funding. Interest on debt and finance leases is recognised using the effective interest method.

Section A: Results of the year

A5 Finance costs (continued)

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Interest expense on debt and finance leases using the effective interest method	220	245	203	227
Interest expense on provisions	9	20	8	19
Total interest expense	**229**	**265**	**211**	**246**
Interest on derivative financial instruments	209	209	205	203
Other finance costs	6	4	6	4
Total finance costs	**444**	**478**	**422**	**453**

Prior year interest on derivative financial instruments has been reclassified to conform with current year presentation. Refer to Note E1 for information about interest rate risk and interest rate risk management.

Explanation of significant variances against budget

	Group		Auckland Council	
2020 $million	**Actual**	**Budget**	**Actual**	**Budget**
Finance costs	444	456	422	436

Group

Lower interest rates have resulted in a $12 million favourable variance in finance costs for the group. This is due to lower fixed interest rates from swap extensions in the prior financial year which were not reflected in the budgeted rate, as well as lower than budgeted interest rates on new borrowings and lower floating interest rates compared to budget.

Auckland Council

The favourable variance of $14 million is a result of a lower interest expense as explained above.

A6 Net other gains and losses

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Net gains/(losses) on change in fair value of derivative financial instruments:				
Net gains/(losses) attributable to foreign exchange movements	90	(65)	86	(59)
Net losses attributable to interest rate movements	(755)	(654)	(756)	(654)
	(665)	(719)	(670)	(713)
Net increase/(decrease) in fair value of investment property	(55)	15	(58)	7
Net increase/(decrease) in financial instruments designated at fair value through surplus/(deficit)	1	(4)	19	50
Net foreign exchange gains/(losses) recognised in surplus/(deficit) on financial instruments held at amortised cost	(86)	60	(86)	59
Impairment of property, plant and equipment and intangible assets	(44)	(4)	(28)	(1)
Impairment of investment in subsidiaries, associates and joint ventures	-	-	(2)	-
Net gains/(losses) on disposal of property, plant and equipment and intangible assets	(9)	(1)	9	13
Net loss on disposal of other assets	-	(2)	-	-
Gain on discontinuing equity accounting of Auckland International Airport Limited	230	-	230	-
Gain on business combination	-	4	-	-
Total net other gains/(losses)	**(628)**	**(651)**	**(586)**	**(585)**

Section A: Results of the year

A6 Net other gains and losses (continued)

Explanation of significant variances against budget

2020 $million	Group Actual	Group Budget	Auckland Council Actual	Auckland Council Budget
Net other gains/(losses)	(628)	-	(586)	-

Net other gains and losses for the group of $628 million and for the council of $586 million are not budgeted. These net losses mainly relate to movements in the value of derivative financial instruments used as hedges against interest rate and foreign exchange movements. The group uses foreign exchange hedges to lock in foreign currency rates on our borrowings denominated in foreign currency. The group also uses interest rate hedging contracts to fix interest costs on debt issued at floating rates, which increases certainty of interest costs over multiple time periods to enable us to execute our planned expenditure programmes with confidence. Accounting standards require hedging contracts to be recognised at their fair value at the reporting date. The historically low interest rates in New Zealand have resulted in a $755 million loss from 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 hedge contracts are higher than market interest rates at balance date. Hedging contracts are generally held to maturity. Since balance date, interest rates have reduced further.

Other losses include impairment in property, plant and equipment, net decrease in the fair value of investment property and losses on disposal property, plant and equipment and intangible assets.

These losses are offset for by a gain on discontinuing equity accounting of Auckland International Airport Limited (AIAL). At the time of dilution of the group's holding during the year, the group changed method of accounting for its investment. This investment is now recognised at fair value through other comprehensive revenue and expenditure.

A7 Income tax

Accounting policy

Income from the council and some CCOs is exempt from income tax under the Income Tax Act 2007, except for certain income received from CCOs 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 2020	Group 2019	Auckland Council 2020	Auckland Council 2019
Components of income tax expense				
Current tax	-	-	-	-
Deferred tax	74	58	-	-
Total income tax expense	**74**	**58**	**-**	**-**
Relationship between income tax and accounting surplus/(deficit)				
Net surplus/(deficit) before tax	109	233	(823)	(280)
Surplus/(deficit) from non-taxable activities	41	(422)	823	280
Taxable surplus/(loss)	**150**	**(189)**	**-**	**-**
Prima facie income tax at 28%	42	(52)	-	-
Prior period adjustment	57	1	-	-
Tax effect of permanent differences	-	86	-	-
Associates' income net of tax	-	(1)	-	-
Loss offset net of group losses utilised	-	4	-	-
De-recognition of deferred tax assets	1	2	-	-
Tax credits	-	(1)	-	-
Timing differences	-	1	-	-
Reversal of tax liability for prior year tax loss offsets	(16)	(8)	-	-
Other adjustments (including reintroduction of building tax depreciation)	(10)	26	-	-
Total income tax expense	**74**	**58**	**-**	**-**

Imputation credit

$million	Group 2020	Group 2019	Auckland Council 2020	Auckland Council 2019
Imputation credits available for use in subsequent reporting periods	33	56	-	-

All the group's significant subsidiaries except for 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 $2 million (2019: $25 million).

Section B: Long-term assets

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:

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 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. The cost of third party constructed assets generally comprises the sum of costs invoiced by the third party. The cost of self-constructed assets comprises purchase costs, time allocations and excludes, where material, any abnormal costs and internal surpluses.

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)
Infrastructure		**Operational (continued)**	
Land and road formation	Indefinite	Bus stations and shelters	10 to 40
Roads	3 to 110	Marinas	9 to 45
Water and wastewater	10 to 201	Rolling stock	5 to 35
Machinery	3 to 200	Wharves	4 to 100
Storm water	15 to 150	Works of art	Indefinite
Other infrastructure	3 to 80	Other operational assets	1 to 60
Operational		**Restricted**	
Land	Indefinite	Parks and reserves	Indefinite
Buildings	10 to 100	Buildings	5 to 100
Specialised sporting and cultural venues	3 to 100	Improvements	2 to 50
Train stations	6 to 60	Specified and cultural 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 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)

Changes to classes of assets

During the year the group created a new class of assets specialised sporting and cultural venues. This group of assets represents a material class of assets that are unique in nature and consequently, the way in which they are valued. Prior year balances have been reclassified to reflect this change.

Impact of the COVID-19 pandemic

Recognition of extension of time variations

The group and the council use third party construction companies to construct most of their buildings and infrastructure. During the COVID-19 Alert Level 4 lockdown, the group and the council received claims from construction companies for contract variations for extension of time and costs caused by the change in law and per the terms of NZS3910 Conditions of contract for building and civil engineering construction, the standard form of contract used in the New Zealand construction market. Most of these variations were undergoing negotiation at 30 June 2020 and accordingly management has accrued its best estimate of these costs, being $18 million for the group and $6 million for the council. These extension of time variations were capitalised in line with existing group accounting practise.

Valuation

The COVID-19 pandemic and ensuing financial instability has resulted in uncertainty in relation to the valuation of the group and the council's assets. Material valuation uncertainty has arisen for assets valued based on market information because of an inactive market resulting in limited sales evidence since March 2020. The assets valued based on market information are primarily land assets and non-specialised buildings.

Where assets have not been revalued during the year, management obtains market movement letters from independent valuers in order to determine whether the carrying value of property, plant and equipment is materially the same as its fair value. These letters provide insights into potential changes in fair value of the group and the council's assets. Because of the uncertainty, most external valuers have commented on valuation uncertainty in their valuation reports and market movement letters at 30 June 2020 and some valuers have issued their reports on a material uncertainty basis when the assets values are based on limited sales information due to COVID-19. The inclusion of a material valuation uncertainty indicates that the information provided is current at the date of valuation only and that less certainty and a higher degree of caution should be attached to the valuations and letters than in other years. In addition, the values provided should be kept under frequent review as the assessed value may change significantly and unexpectedly over the relatively short period of time. The valuation uncertainties where applicable, are outlined for each class of assets in the Significant judgements and estimates section below.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

	Opening balance			Current year	Closing balance		
Group 2020 $million	**Cost/ valuation**	**Accumulated depreciation and impairment**	**Carrying amount**	**Current year movements***	**Cost/ valuation**	**Accumulated depreciation and impairment**	**Carrying amount**
Infrastructure							
Roads and formation	10,545	(470)	10,075	780	10,873	(18)	10,855
Water and wastewater	8,027	(168)	7,859	34	8,227	(334)	7,893
Machinery	1,203	(68)	1,135	(5)	1,261	(131)	1,130
Storm water	4,630	(49)	4,581	129	4,809	(99)	4,710
Land	7,069	-	7,069	114	7,183	-	7,183
Work in progress	1,182	-	1,182	686	1,868	-	1,868
Other	5	-	5	(5)	-	-	-
	32,661	**(755)**	**31,906**	**1,733**	**34,221**	**(582)**	**33,639**
Operational							
Land and buildings	5,260	(73)	5,187	(16)	5,309	(138)	5,171
Specialised sporting and cultural venues	913	(25)	888	79	967	-	967
Train stations	612	(52)	560	62	622	-	622
Bus stations and shelters	144	(8)	136	(27)	109	-	109
Marinas	124	-	124	(4)	124	(4)	120
Rolling stock	435	(16)	419	44	495	(32)	463
Wharves	467	(15)	452	94	571	(25)	546
Works of art	328	(2)	326	23	354	(5)	349
Work in progress	482	-	482	69	551	-	551
Other	1,333	(653)	680	90	1,466	(696)	770
	10,098	**(844)**	**9,254**	**414**	**10,568**	**(900)**	**9,668**
Restricted							
Parks, reserves and buildings	5,699	(4)	5,695	91	5,794	(8)	5,786
Improvements	1,408	(402)	1,006	35	1,511	(470)	1,041
Specified cultural and heritage	150	-	150	-	150	-	150
Work in progress	184	-	184	(47)	137	-	137
	7,441	**(406)**	**7,035**	**79**	**7,592**	**(478)**	**7,114**
Group total	**50,200**	**(2,005)**	**48,195**	**2,226**	**52,381**	**(1,960)**	**50,421**

*Refer to next page for further details.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Group 2020 $million	Current year movements: Transfers from capital work in progress	Additions	Depreciation (Note A4)	Impairment	Disposals	Transfers*	Revaluations, net of accumulated depreciation	Total
Infrastructure								
Roads and formation	449	-	(247)	(9)	(20)	10	597	**780**
Water and wastewater	210	-	(167)	-	(9)	-	-	**34**
Machinery	60	-	(63)	-	(2)	-	-	**(5)**
Storm water	155	-	(50)	-	(1)	25	-	**129**
Land	206	-	-	-	(16)	(76)	-	**114**
Work in progress	(1,083)	1,769	-	-	-	-	-	**686**
Other	3	-	-	-	-	(8)	-	**(5)**
	-	**1,769**	**(527)**	**(9)**	**(48)**	**(49)**	**597**	**1,733**
Operational								
Land and buildings	200	-	(89)	(1)	(29)	(97)	-	**(16)**
Specialised sporting and cultural venues	14	-	(6)	-	(5)	15	61	**79**
Train stations	10	-	(27)	-	-	21	58	**62**
Bus stations and shelters	3	-	(5)	-	-	(20)	(5)	**(27)**
Marinas	-	-	(4)	-	-	-	-	**(4)**
Rolling stock	60	-	(16)	-	-	-	-	**44**
Wharves	111	-	(13)	-	-	(4)	-	**94**
Works of art	5	-	(2)	-	-	-	20	**23**
Work in progress	(568)	637	-	-	-	-	-	**69**
Other	165	-	(98)	(7)	(6)	36	-	**90**
	-	**637**	**(260)**	**(8)**	**(40)**	**(49)**	**134**	**414**
Restricted								
Parks, reserves and buildings	101	-	(4)	-	(2)	(4)	-	**91**
Improvements	133	-	(69)	-	-	(29)	-	**35**
Specified cultural and heritage	-	-	-	-	-	-	-	**-**
Work in progress	(234)	187	-	-	-	-	-	**(47)**
	-	**187**	**(73)**	**-**	**(2)**	**(33)**	**-**	**79**
Group total	**-**	**2,593**	**(860)**	**(17)**	**(90)**	**(131)**	**731**	**2,226**

*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 2019 $million	Opening balance: Cost/ valuation	Opening balance: Accumulated depreciation and impairment	Opening balance: Carrying amount	Current year: Current year movements*	Closing balance: Cost/ valuation	Closing balance: Accumulated depreciation and impairment	Closing balance: Carrying amount
Infrastructure							
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
	31,294	**(242)**	**31,052**	**854**	**32,661**	**(755)**	**31,906**
Operational							
Land and buildings	5,073	(14)	5,059	128	5,260	(73)	5,187
Specialised sporting and cultural venues[1]	858	-	858	30	913	(25)	888
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	-	328	(2)	326
Work in progress	298	-	298	184	482	-	482
Other	1,207	(574)	633	47	1,333	(653)	680
	9,474	**(627)**	**8,847**	**407**	**10,098**	**(844)**	**9,254**
Restricted							
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
	7,172	**(341)**	**6,831**	**204**	**7,441**	**(406)**	**7,035**
Group total	**47,940**	**(1,210)**	**46,730**	**1,465**	**50,200**	**(2,005)**	**48,195**

*Refer to next page for further details.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Group 2019 $million	Current year movements: Transfers from capital work in progress	Additions	Depreciation (Note A4)	Impairment	Disposals	Transfers*	Revaluations, net of accumulated depreciation	Total
Infrastructure								
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**
Operational								
Land and buildings	167	-	(65)	-	(54)	80	-	**128**
Specialised sporting and cultural venues	59	-	(26)	(2)	(1)	-	-	**30**
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)	-	-	-	-	**-**
Work in progress	(457)	641	-	-	-	-	-	**184**
Other	186	4	(97)	-	(3)	(43)	-	**47**
	-	**645**	**(248)**	**(2)**	**(66)**	**37**	**41**	**407**
Restricted								
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**
Group total	**-**	**2,251**	**(827)**	**(4)**	**(80)**	**84**	**41**	**1,465**

*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 2020 $million	Opening balance: Cost/ valuation	Opening balance: Accumulated depreciation and impairment	Opening balance: Carrying amount	Current year: Current year movements*	Closing balance: Cost/ valuation	Closing balance: Accumulated depreciation and impairment	Closing balance: Carrying amount
Infrastructure							
Storm water	4,630	(48)	4,582	128	4,809	(99)	4,710
Work in progress	128	-	128	102	230	-	230
Other	5	-	5	(4)	1	-	1
	4,763	**(48)**	**4,715**	**226**	**5,040**	**(99)**	**4,941**
Operational							
Land and buildings	3,370	(55)	3,315	(25)	3,399	(109)	3,290
Wharves	67	-	67	93	164	(4)	160
Works of art	41	(2)	39	2	43	(2)	41
Work in progress	281	-	281	29	310	-	310
Other	605	(339)	266	32	680	(382)	298
	4,364	**(396)**	**3,968**	**131**	**4,596**	**(497)**	**4,099**
Restricted							
Parks, reserves and buildings	5,700	(4)	5,696	91	5,795	(8)	5,787
Improvements	1,405	(401)	1,004	33	1,507	(470)	1,037
Specified cultural and heritage	150	-	150	-	150	-	150
Work in progress	184	-	184	(47)	137	-	137
	7,439	**(405)**	**7,034**	**77**	**7,589**	**(478)**	**7,111**
Auckland Council total	**16,566**	**(849)**	**15,717**	**434**	**17,225**	**(1,074)**	**16,151**

*Refer to next page for further details.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Auckland Council 2020 $million	Current year movements: Transfers from capital work in progress	Additions	Depreciation (Note A4)	Impairment	Disposals	Transfers*	Revaluations, net of accumulated depreciation	Total
Infrastructure								
Storm water	155	-	(50)	-	(1)	24	-	**128**
Work in progress	(158)	260	-	-	-	-	-	**102**
Other	3	-	-	-	(5)	(2)	-	**(4)**
	-	**260**	**(50)**	**-**	**(6)**	**22**	**-**	**226**
Operational								
Land and buildings	112	54	(59)	(1)	(22)	(109)	-	**(25)**
Wharves	101	-	(4)	-	-	(4)	-	**93**
Works of art	3	-	(1)	-	-	-	-	**2**
Work in progress	(264)	293	-	-	-	-	-	**29**
Other	48	3	(47)	-	(7)	35	-	**32**
	-	**350**	**(111)**	**(1)**	**(29)**	**(78)**	**-**	**131**
Restricted								
Parks, reserves and buildings	101	1	(4)	-	(2)	(5)	-	**91**
Improvements	133	-	(71)	-	-	(29)	-	**33**
Specified cultural and heritage	-	-	-	-	-	-	-	**-**
Work in progress	(234)	187	-	-	-	-	-	**(47)**
	-	**188**	**(75)**	**-**	**(2)**	**(34)**	**-**	**77**
Auckland Council total	**-**	**798**	**(236)**	**(1)**	**(37)**	**(90)**	**-**	**434**

*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: Cost/ valuation	Opening balance: Accumulated depreciation and impairment	Opening balance: Carrying amount	Current year: Current year movements*	Closing balance: Cost/ valuation	Closing balance: Accumulated depreciation and impairment	Closing balance: Carrying amount
Infrastructure							
Storm water	4,498	-	4,498	84	4,630	(48)	4,582
Work in progress	96	-	96	32	128	-	128
Other	-	-	-	5	5	-	5
	4,594	**-**	**4,594**	**121**	**4,763**	**(48)**	**4,715**
Operational							
Land and buildings	3,158	(2)	3,156	159	3,370	(55)	3,315
Wharves	-	-	-	67	67	-	67
Works of art	40	-	40	(1)	41	(2)	39
Work in progress	136	-	136	145	281	-	281
Other	455	(299)	156	110	605	(339)	266
	3,789	**(301)**	**3,488**	**480**	**4,364**	**(396)**	**3,968**
Restricted							
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
	7,166	**(340)**	**6,826**	**208**	**7,439**	**(405)**	**7,034**
Auckland Council total	**15,549**	**(641)**	**14,908**	**809**	**16,566**	**(849)**	**15,717**

*Refer to next page for further details.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Auckland Council 2019 $million	Transfers from capital work in progress	Additions	Depreciation (Note A4)	Impairment	Disposals	Transfers*	Revaluations, net of accumulated depreciation	Total
	Current year movements							
Infrastructure								
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**
Operational								
Land and buildings	100	205	(55)	-	(43)	(48)	-	**159**
Wharves	-	67	-	-	-	-	-	**67**
Works of art	1	-	(2)	-	-	-	-	**(1)**
Work in progress	(133)	278	-	-	-	-	-	**145**
Other	32	123	(43)	-	(2)	-	-	**110**
	-	**673**	**(100)**	**-**	**(45)**	**(48)**	**-**	**480**
Restricted								
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**
Auckland Council total	**-**	**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)

Work in progress by asset class

$million	Group 2020	Group 2019	Auckland Council 2020	Auckland Council 2019
Infrastructure				
Roads and formation	784	505	-	-
Water and wastewater	854	549	-	-
Storm water	210	119	210	119
Other	20	9	20	9
	1,868	**1,182**	**230**	**128**
Operational				
Land and buildings	337	305	298	252
Specialised sporting and cultural venues	55	48	-	-
Train stations	25	24	-	-
Rolling stock	61	42	-	-
Wharves	2	5	-	-
Works of art	3	5	3	5
Other	68	53	9	24
	551	**482**	**310**	**281**
Restricted				
Parks, reserves and buildings	41	45	41	45
Improvements	96	139	96	139
	137	**184**	**137**	**184**
Work in progress total	**2,556**	**1,848**	**677**	**593**

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, use, 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.

The following asset classes have been revalued at the individual asset level at 30 June 2020: roads and formation, train stations, bus stations and shelters, specialised sporting and cultural venues, and works of art. The table below summarises the key assumptions adopted by independent valuers in determining the fair value of each class of asset.

Independent valuer and key assumptions

Infrastructure	
Water and wastewater and machinery	Water, wastewater and machinery assets were last revalued at 30 June 2018 and are scheduled to be revalued again on 30 June 2021. 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. Independent valuer: Beca Projects NZ Limited. The key valuation assumptions: • 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; and current year fair value assessment: • The movement in fair value of infrastructure assets since 30 June 2018 was assessed at balance date using indices deemed suitable by management supported by a material movements letter from Beca Projects NZ Limited that includes a statement on valuation uncertainty. The assessment indicated an immaterial increase in infrastructure asset values and therefore a revaluation of this asset class was not required at balance date.
Stormwater	Stormwater assets were last revalued at 30 June 2018 and are scheduled to be revalued again on 30 June 2021. Independent valuer: In-house valuation subject to peer review by AON New Zealand. Key valuation 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; and current year fair value assessment: • Management performed an assessment of the change in fair value using the Business Price Indexes published by Statistics New Zealand to approximate changes in fair value at 30 June 2020. The assessment indicates an immaterial increase in the asset value and therefore a revaluation of the asset class was not required at balance date.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Independent valuer and key assumptions (continued)

Infrastructure (continued)	
Roads and formation	Independent valuer: PEACS Limited Key valuation 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 and adjusted as per NZTA cost adjustment factors; • 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; and current year valuation: • PEACS Limited has issued a valuation report which included a valuation uncertainty statement due to the existence of market uncertainty at the date of the valuation, noting that short-term market fluctuations would not significantly change the long-term contract rates or have a material impact on current DRC values.
Operational	
Land and buildings	Land and buildings were last revalued at 30 June 2018 and are scheduled to be revalued again at 30 June 2021. Independent valuers: Bayleys Valuation Limited, Beca Projects NZ Limited, Quotable Value Limited, CBRE Limited, Colliers International Key valuation 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; and current year fair value assessment: • At 30 June 2020, the fair value movement in operational land and buildings has been assessed using material change letters provided by independent valuers. Management concluded that fair value movements since 30 June 2018 are immaterial and consequently, no valuation was required at reporting date. All material change letters included a material valuation uncertainty statement, stating that there is limited evidence of property sales post the COVID-19 lockdown.
Specialised sporting and cultural venues	Independent valuer: Beca Projects NZ Limited Key valuation assumptions: • Optimised depreciated replacement cost uses the assessment of replacement cost new of a modern equivalent asset as the starting point and applies optimisation and depreciation to adjust for age, condition, performance and remaining useful life. Replacement cost estimates refer to current construction costs and adjust where necessary to fees, lead time, demolition cost and any other deemed necessary changes to in-house data; and current year valuation: • Beca considered the impact of COVID-19 on construction costs in complex and specialised construction projects, such as RFA's buildings.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Independent valuer and key assumptions (continued)

Operational (continued)

Train stations	Independent valuer: WSP New Zealand and in-house valuation carried by Auckland Transport Key valuation assumptions: • Optimised replacement cost is the minimum cost, in the normal course of business, to replace the existing asset with a technologically modern equivalent asset with the same economic benefits, adjusting for any overdesign, overcapacity and redundant components. Optimisation is limited to the extent that optimisation can occur in the normal course of business using commercially available technology; • Assets with unlimited engineering lives are adjusted to have a typical useful life to reflect the rate of change and obsolescence in the environment for each elemental value; and current year valuation: • WSP New Zealand Limited's valuation report included a valuation uncertainty statement due to the existence of market uncertainty at the date of the valuation, noting that it is too early to be definitive about the impact on constructions costs, however, that COVID-19 is unlikely to lead to any reduction in demand for transport asset therefore the quantum of assets remains appropriate and optimised.
Bus stations and shelters	Independent valuer: WSP New Zealand Limited, PEACS Limited and in-house valuation carried by Auckland Transport Key valuation assumptions: • Optimised replacement cost is the minimum cost, in the normal course of business, to replace the existing asset with a technologically modern equivalent asset with the same economic benefits, adjusting for any overdesign, overcapacity and redundant components. Optimisation is limited to the extent that optimisation can occur in the normal course of business using commercially available technology; • Remaining useful life of the asset based on the age, condition and the asset's future service potential; and current year valuation: • WSP New Zealand Limited's valuation report included a valuation uncertainty statement due to the existence of market uncertainty at the date of the valuation, noting that it is too early to be definitive about the impact on constructions costs, however, that COVID-19 is unlikely to lead to any reduction in demand for transport asset therefore the quantum of assets remains appropriate and optimised. • PEACS Limited's valuation report also included a valuation uncertainty statement due to the existence of market uncertainty at the date of the valuation, noting that short-term market fluctuations would not significantly change the long-term contract rates or have a material impact on current DRC values.
Marinas	Marinas were last revalued at 30 June 2019 and are scheduled to be revalued again at 30 June 2022. Independent valuers: Seagar & Partners Limited Key valuation assumptions: • 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; and current year fair value assessment: • At 30 June 2020, the model was reviewed in-house and there were no material changes to the expected cash flows from the marina assets.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Independent valuer and key assumptions (continued)

Operational (continued)

Rolling stock	Rolling stock was last revalued at 30 June 2018 and is rescheduled to be revalued again at 30 June 2021. Independent valuers: KPMG Key valuation assumptions: • Optimised replacement cost is the minimum cost, in the normal course of business, to replace the existing asset with a technologically modern equivalent asset with the same economic benefits, adjusting for any overdesign, overcapacity and redundant components. Optimisation is limited to the extent that optimisation can occur in the normal course of business using commercially available technology; • Useful lives based on an expected vehicle replacement programme, which defines the expected economic and/or physical lives of the different vehicle types; and current year fair value assessment: • Management performed an assessment of the change in fair value using the Business Price Indexes published by Statistics New Zealand to approximate changes in fair value at 30 June 2020. The assessment indicates an immaterial increase in the asset value and therefore a revaluation of the asset class was not required at balance date.
Wharves	Wharves were last revalued at 30 June 2018 and are scheduled to be revalued again at 30 June 2021. Independent valuer: WSP New Zealand Limited, Beca Projects NZ Limited, Jones Lang Lasalle Limited, NAI Harcourts NZ and in-house valuation carried out by Auckland Transport Key valuation assumptions: • Optimised replacement cost to the extent that optimisation can occur in the normal course of business using commercially available technology; • 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; • 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; and current year fair value assessment: • At 30 June 2020, the movement in fair value of wharves was assessed using Statistics NZ Capital Goods price index. The analysis indicates an immaterial increase in the fair value of these assets and therefore a revaluation of the asset class was not required at balance date.
Works of art	Independent valuer: Auckland Art Gallery in-house curators, Sotheby's (London) and Coupland Art (Auckland) Key valuation assumption: • 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.
Restricted	
Parks, reserves and buildings	Restricted land and buildings were last revalued at 30 June 2018 and are scheduled to be revalued again at 30 June 2021. Independent valuer: Quotable Value Limited Key valuation assumptions: • 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;

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Independent valuer and key assumptions (continued)

Restricted (continued)	
Parks, reserves and buildings	• Buildings are based on depreciated replacement cost determined with reference to recent construction contracts and recent costing obtained from construction details and Property Institute of New Zealand's cost information; and current year fair value assessment: • Restricted land and buildings have been reviewed for market movements to 30 June 2020 by Quotable Value Limited. Management concluded that fair value movements since 30 June 2018 are immaterial and consequently, no valuation was required at reporting date. • The material change letter provided by QV included a material valuation uncertainty based on the existence of uncertainty in the market at valuation date, stating that there was limited evidence of property sales post the COVID-19 lockdown to indicate a softening in values at the time of preparing the valuer's report. As a result, estimates were applied based on prior sales information and the limited sales since the lockdown.

Asset class	Last revalued date	Asset revaluation reserve				Net change for the period	
		Group		Auckland Council		Group	Auckland Council
$million		2020	2019	2020	2019		
Infrastructure							
Water and wastewater	30 June 2018	1,216	1,215	-	-	1	-
Machinery	30 June 2018	153	151	-	-	2	-
Stormwater	30 June 2018	799	799	799	799	-	-
Roads and formation	30 June 2020	3,614	3,020	-	-	594	-
Operational							
Land and buildings	30 June 2018	1,833	1,895	1,060	1,090	(62)	(30)
Specialised sporting and cultural venues	30 June 2020	295	234	-	-	61	-
Train stations	30 June 2020	331	273	-	-	58	-
Bus stations and shelters	30 June 2020	10	14	-	-	(4)	-
Marinas	30 June 2019	90	90	-	-	-	-
Rolling stock	30 June 2018	4	4	-	-	-	-
Wharves	30 June 2018	92	90	-	-	2	-
Works of art	30 June 2020	66	46	26	26	20	-
Restricted							
Parks, reserves and buildings	30 June 2018	1,700	1,705	1,700	1,705	(5)	(5)
Total		**10,203**	**9,536**	**3,585**	**3,620**	**667**	**(35)**

Spark Arena (previously named Vector Arena)

Included within operational land and buildings is Spark Arena with a carrying value of $107 million (2019: $99 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 QPAMs 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).

Section B: Long-term assets

B1 Property, plant and equipment (continued)

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 $399 million:

- heritage books valued at $150 million as at 30 June 2020 (2019: $150 million); and
- 341 constructed heritage sites valued at $249 million as at 30 June 2020 (2019: 334 sites valued at $246 million).

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		Land and buildings	Parks, reserves and buildings	Total
Group				
	2020	348	26	**374**
	2019	396	25	421
Auckland Council				
	2020	196	26	**222**
	2019	199	25	224

America's Cup 36 (AC36) Assets

Included within wharves are assets built for AC36 with a carrying value of $95 million. The council has committed to the Ministry of Business, Innovation and Employment (MBIE) that the assets constructed for the event will remain in situ for future America's Cup events until 25 September 2038.

Finance leases

Other operational assets include property, plant and equipment subject to finance leases. The value of these assets is $45 million for the group (2019: $41 million) and $40 million for the council (2019: $41 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 (2019: $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 $197 million at 30 June 2020 (2019: $199 million).

No new service concession arrangements were entered into by the group and the council in 2020 (2019: 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
2020							
Assets constructed	22	150	147	202	143	11	536
Assets transferred	-	15	3	44	111	-	95
Closing book value	943	3,119	1,100	3,861	4,699	11	10,855
Estimated replacement cost	1,635	5,216	1,573	7,054	6,250	108	16,273
2019							
Assets constructed	33	82	149	119	83	12	400
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

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 2020:

$million	Book value	Insured value	Replacement value of self-insured assets	Commentary
Roads and formation	11,639	-	16,273	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 NZTA.
Water and wastewater and machinery	9,877	19,920	-	Above ground infrastructure which includes water supply and wastewater treatment plants, pump stations and mobile plant and equipment to a value of $4.2 billion with a maximum insured value of $1 billion per event reducing to $450 million per event for fire. 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.
Stormwater	4,920	6,461	-	Below ground infrastructure is mainly pipes, culverts and valves. For this, 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	6,922	14,489	-	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	524	578	-	Insurance is for the entire network and includes the electric trains. The group has a maximum coverage of $100 million per event.
Land	16,380	-	16,380	All land (including restricted land) held by the group and the council is not insured due to low risk of loss.
Total	**50,262**	**41,448**	**32,653**	

The group and the council do not maintain a fund for the purpose of self-insurance.

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:

Class of intangible asset	Estimated useful life (years)
Community rights	4 to 35
Computer software	3 to 15
Intellectual property	3 to 35
Other intangible assets	6 to 63

Disposals

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

Impairment

Intangible assets are tested annually for impairment. 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.

Explanation of significant variances against budget

	Group		Auckland Council	
2020 $million	Actual	Budget	Actual	Budget
Intangible assets	684	525	286	253

Group

Intangible assets were higher than budget due to significant levels of additions to intangible assets which were budgeted as increases to property, plant and equipment, including systems to improve transport delivery and automation software for automated straddle carriers at the docks.

Section B: Long-term assets

B2 Intangible assets (continued)

Group 2020 $million	Opening balance Cost	Opening balance Accumulated depreciation and impairment	Opening balance Carrying amount	Current year movements	Closing balance Cost	Closing balance Accumulated depreciation and impairment	Closing balance Carrying amount
Computer software	854	(487)	367	72	1,011	(572)	439
Rights to acquire	10	-	10	-	10	-	10
Intellectual property	97	(64)	33	31	137	(73)	64
Other	118	(29)	89	4	127	(34)	93
Work in progress	141	-	141	(63)	78	-	78
Group total	**1,220**	**(580)**	**640**	**44**	**1,363**	**(679)**	**684**
Group 2019 $million							
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
Group total	**1,050**	**(487)**	**563**	**77**	**1,220**	**(580)**	**640**

Group 2020 $million	Current year movements: Transfers from work in progress	Internally developed	Acquisition	Amortisation (Note A4)	Impairment	Disposals	Transfers*	Total
Computer software	164	-	-	(89)	(1)	(2)	-	**72**
Rights to acquire	-	-	-	-	-	-	-	**-**
Intellectual property	40	-	-	(9)	-	-	-	**31**
Other	8	-	-	(5)	-	-	1	**4**
Work in progress	(212)	28	121	-	-	-		**(63)**
Group total	**-**	**28**	**121**	**(103)**	**(1)**	**(2)**	**1**	**44**
Group 2019 $million								
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**
Group total	**-**	**26**	**147**	**(95)**	**-**	**(1)**	**-**	**77**

*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 2020 $million	Opening balance Cost	Opening balance Accumulated depreciation and impairment	Opening balance Carrying amount	Current year movements	Closing balance Cost	Closing balance Accumulated depreciation and impairment	Closing balance Carrying amount
Computer software	480	(290)	190	(15)	508	(333)	175
Rights to acquire	10	-	10	1	11	-	11
Intellectual property	91	(61)	30	31	130	(69)	61
Other	27	(13)	14	1	31	(16)	15
Work in progress	57	-	57	(33)	24	-	24
Auckland Council total	**665**	**(364)**	**301**	**(15)**	**704**	**(418)**	**286**
Auckland Council 2019 $million							
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
Auckland Council total	**615**	**(311)**	**304**	**(3)**	**665**	**(364)**	**301**

Auckland Council 2020 $million	Current year movements: Transfers from work in progress	Internally developed	Acquisition	Amortisation (Note A4)	Impairment	Disposals	Transfers*	Total
Computer software	31	-	-	(46)	-	-	-	**(15)**
Rights to acquire	1	-	-	-	-	-	-	**1**
Intellectual property	39	-	-	(8)	-	-	-	**31**
Other	4	-	-	(3)	-	-	-	**1**
Work in progress	(75)	28	14	-	-	-	-	**(33)**
Auckland Council total	**-**	**28**	**14**	**(57)**	**-**	**-**	**-**	**(15)**
Auckland Council 2019 $million								
Computer software	24	-	-	(45)	-	-	-	**(21)**
Rights to acquire	-	-	-	-	-	-	-	**-**
Intellectual property	9	-	-	(7)	-	-	-	**2**
Other	2	-	-	(2)	-	-	-	**-**
Work in progress	(35)	26	25	-	-	-	-	**16**
Auckland Council total	**-**	**26**	**25**	**(54)**	**-**	**-**	**-**	**(3)**

*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 include the following:

- Rights to occupy of $41 million as at 30 June 2020 (2019: $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. $12 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; and
- Resource consents valued at $34 million as at 30 June 2020 (2019: $31 million) which are essential to long-term programme of future capital works and are being amortised over the period of 1 to 38 years (2019: 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 (2019: $nil).

Work in progress

Intangible assets under construction are detailed below:

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Computer software	62	70	14	28
Intellectual property	10	29	10	29
Other	6	42	-	-
Work in progress total	**78**	**141**	**24**	**57**

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.

Explanation of significant variances against budget

	Group		Auckland Council	
2020 $million	**Actual**	**Budget**	**Actual**	**Budget**
Investment properties	603	761	485	577

Group and Auckland Council

Following the transfer of strategic assets from Panuku to the council at the end of the prior year, certain assets were reclassified from investment property to property, plant and equipment. This reclassification was not anticipated in the budget. In addition, the financial uncertainty created by the COVID-19 pandemic resulted in a downwards revaluation of investment property. Investment property revaluation movements are not budgeted for.

Section B: Long-term assets

B3 Investment property (continued)

Impact of the COVID-19 pandemic

Due to the COVID-19 pandemic, business has been significantly affected and the normal operation of the economy and the property market has been disrupted resulting in significant market uncertainty and a lack of recent comparable market transactions. Property values in the group portfolio have been affected to widely varying degrees depending on apparent risks at this time. While there is more uncertainty than usual in market price estimates, valuers have formulated an opinion of fair value of the assets for financial reporting purposes. Valuers have included a material valuation uncertainty statement in their valuation reports at 30 June 2020 or have issued their reports on an uncertainty basis due to the existence of market uncertainty at the date of valuation. The inclusion of a valuation uncertainty indicates that the information provided is current at the date of valuation only and that less certainty and a higher degree of caution should be attached to the valuations than in other years. In addition, the values provided should be kept under frequent review as the assessed value may change significantly and unexpectedly over the relatively short period of time. Material valuation uncertainties where applicable, are outlined below for each class of investment property.

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 • Individually considered and valued in accordance with current market-based evidence. • Valued as vacant under freehold or leasehold tenure. • Valuations consider the size, contour, quality, location, zoning, designation, and current and potential use. COVID 19 impact: • The Auckland development market is facing considerable headwinds because of the global economic contraction caused by the COVID-19 pandemic. While no transactions have occurred post-COVID-19 pandemic that would enable valuers to observe the adverse impact on CBD land values, the collective view of researchers and valuers is that the impact is likely to be material. Consequently, valuers have adjusted base land value rates accordingly. • CBRE Limited and Colliers International New Zealand Limited included a material valuation uncertainty statement in its valuation report due to the existence of factors that the valuer could not reasonably have been aware of as at the date of valuation. • All other valuers included valuation uncertainty statements in their valuation reports.
Commercial property	Independent valuer: CBRE Limited, Colliers International New Zealand Limited, Darroch Limited, Quotable Value Limited and Seagar & Partners Limited • Based on indicative yields derived from current prices of comparable property in an active market. COVID-19 impact: • Due to the COVID-19 pandemic, yields have been adjusted to reflect the increased risk of vacancies and the potential fall in rents. • CBRE Limited and Colliers International New Zealand Limited included a material valuation uncertainty statement in its valuation report due to the existence of factors that the valuer could not reasonably have been aware of as at the date of valuation. • All other valuers included valuation uncertainty statements in their valuation reports.
Water space licence	Independent valuer: CBRE Limited and Seagar & Partners Limited • Based on direct sales comparison, or a direct capitalisation of rental income using market comparisons of capitalisation rates ranging from 4.0% to 6.5% (2019: 4% to 6%), supported by a discounted cash flow approach.

Section B: Long-term assets

B3 Investment property (continued)

The movement in investment property is as follows:

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Opening balance	629	761	498	133
Net increase/(decrease) in fair value of investment property	(55)	16	(58)	7
Additions from acquisition	41	32	37	358
Disposals	(56)	-	-	-
Net transfers to property, plant and equipment	44	(180)	8	-
Closing balance	**603**	**629**	**485**	**498**

Prior year additions from acquisition include $351 million related to the asset transfer from Panuku Development Auckland Limited to Auckland Council.

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

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Rental income	27	30	18	6
Expenses	8	8	8	3

The group and the council have no investment property pledged as security for liabilities during the year (2019: $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.

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Current				
Secured borrowings	1,093	1,172	1,092	1,172
Unsecured borrowings	-	-	-	-
Total current borrowings	**1,093**	**1,172**	**1,092**	**1,172**
Non-current				
Secured borrowings	8,634	7,291	8,630	7,291
Unsecured borrowings	487	495	-	-
Total non-current borrowings	**9,121**	**7,786**	**8,630**	**7,291**
Total borrowings	**10,214**	**8,958**	**9,722**	**8,463**
Consisting of:				
Fixed rate borrowings	1,692	2,040	1,517	1,870
Floating rate borrowings	8,522	6,918	8,205	6,593
Total borrowings	**10,214**	**8,958**	**9,722**	**8,463**

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 $4,757 million as at 30 June 2020 (2019: $3,794 million) and is hedged to eliminate foreign exchange risk. Refer to Note E3 for further information.

The council's secured 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 2019 and 2020.

There were no defaults or breaches by the group or the council on any borrowing arrangement during the year (2019: 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 north-west.

The funds will be received in the following manner:

- advanced funding from 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 2020, 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 2020, is 4.2% (2019: 4.7%). Refer to Notes A5 and E1 for the net finance costs during the period and the interest rate risk analysis, respectively.

Explanation of significant variances against budget

	Group		Auckland Council	
2020 $million	**Actual**	**Budget**	**Actual**	**Budget**
Borrowings	10,214	9,720	9,722	9,191

Group and Auckland Council

Debt was higher than budget due to the reduced revenues and pressures on working capital arising from the COVID-19 pandemic.

Local government disclosures

Internal borrowings

In relation to each group of activities, the council has incurred no internal borrowings during the year to 30 June 2020. The group and the council always maintain sufficient cash balances.

Credit ratings

The council has a S&P's credit rating of AA (Stable outlook) and Moody's credit rating of Aa2 (Stable outlook). The S&P's rating was reaffirmed in September 2020 and the Moody's rating in April 2020.

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.

Section C: Borrowings and financial instruments

C2 Derivative financial instruments (continued)

Accounting policy (continued)

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.

Explanation of significant variances against budget

	Group		Auckland Council	
2020 $million	Actual	Budget	Actual	Budget
Net derivative liability	2,073	679	2,059	651

Group and Auckland Council

The net derivative liability is unfavourable to budget primarily due to the unexpected reduction in interest rates during the year resulting in significant unrealised losses. Fair value movements on derivatives are unbudgeted.

Impact of the COVID-19 pandemic

Central banks around the world decreased interest rates mainly in response to the financial instability caused by the COVID-19 pandemic. This has resulted in lower interest rates which has negatively affected the value of interest rate derivative financial instruments.

Although the COVID-19 pandemic brought about volatility to financial markets, the underlying judgements and estimates used in the valuation of derivative financial instruments has not changed.

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:

Instrument	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

Although the COVID-19 pandemic brought about volatility to financial markets, the underlying judgements and estimates used in the valuation of derivative financial instruments has not changed.

Section C: Borrowings and financial instruments

C2 Derivative financial instruments (continued)

	2020				2019			
	Assets		Liabilities		Assets		Liabilities	
Group $million	**Notional[1]**	**Fair value**	**Notional[1]**	**Fair value**	**Notional[1]**	**Fair value**	**Notional[1]**	**Fair value**
Current								
Interest rate swaps								
- cash flow hedge	-	-	40	2	-	-	10	-
- fair value through surplus or deficit	400	6	25	-	500	3	100	2
Forward foreign currency contract								
- cash flow hedge	2	-	8	-	2	-	11	-
- fair value through surplus or deficit	-	-	53	3	-	-	108	7
Forward rate agreements								
- fair value through surplus or deficit	-	-	200	-	-	-	-	-
Total current	**402**	**6**	**326**	**5**	**502**	**3**	**229**	**9**
Non-current								
Interest rate swaps								
- cash flow hedge	-	-	90	9	-	-	130	10
- fair value through surplus or deficit	805	77	10,174	2,636	1,055	58	9,409	1,765
Forward foreign currency contract								
- cash flow hedge	4	-	-	-	-	-	-	-
- fair value through surplus or deficit	-	-	2	-	-	-	14	1
Cross-currency interest rate swaps								
- fair value through surplus or deficit	2,970	553	1,606	70	2,971	373	729	63
Basis swaps								
- fair value through surplus or deficit	2,056	11	-	-	1,636	10	420	-
Total non-current	**5,835**	**641**	**11,872**	**2,715**	**5,662**	**441**	**10,702**	**1,839**
Total derivative	**6,237**	**647**	**12,198**	**2,720**	**6,164**	**444**	**10,931**	**1,848**

	2020				2019			
	Assets		Liabilities		Assets		Liabilities	
Auckland Council $million	**Notional[1]**	**Fair value**	**Notional[1]**	**Fair value**	**Notional[1]**	**Fair value**	**Notional[1]**	**Fair value**
Current								
Interest rate swaps								
- fair value through surplus or deficit	400	6	25	-	500	2	100	1
Forward foreign currency contract								
- fair value through surplus or deficit	53	3	53	3	107	7	108	7
Forward rate agreements								
- fair value through surplus or deficit	-	-	200	-	-	-	-	-
Total current	**453**	**9**	**278**	**3**	**607**	**9**	**208**	**8**
Non-current								
Interest rate swaps								
- fair value through surplus or deficit	805	77	10,174	2,636	1,055	58	9,409	1,766
Forward foreign currency contract								
- fair value through surplus or deficit	2	-	2	-	14	1	14	1
Cross-currency interest rate swaps								
- fair value through surplus or deficit	2,970	553	1,606	70	2,971	373	729	63
Basis swaps								
- fair value through surplus or deficit	2,056	11	-	-	1,636	10	420	-
Total non-current	**5,833**	**641**	**11,782**	**2,706**	**5,676**	**442**	**10,572**	**1,830**
Total derivative	**6,286**	**650**	**12,060**	**2,709**	**6,283**	**451**	**10,780**	**1,838**

[1] The notional principal amounts presented for the council reflect transactions with third parties. Auckland Council's position includes both external and intra-group derivatives.

Section C: Borrowings and financial instruments

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.

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Current				
Short-term deposits	11	24	8	22
Loans to related parties	-	-	7	7
Borrowers notes	6	3	6	3
Listed shares	-	-	-	-
Other	71	29	71	29
Total current	**88**	**56**	**92**	**61**
Non-current				
Loans to related parties	4	4	2,511	2,246
Borrowers notes	39	36	39	36
Listed shares	1,803	44	1,750	-
Other	44	47	32	34
Total non-current	**1,890**	**131**	**4,332**	**2,316**
Total other financial assets	**1,978**	**187**	**4,424**	**2,377**

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 2020 range from 5.0% to 6.6% (2019: 5.6% 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 Auckland Council's expected cost of funds. An annual review of the 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 2020 is 5.0% (2019: 5.4%). The loan to Watercare is classified as fair value through surplus or deficit.

Section C: Borrowings and financial instruments

C3 Other financial assets (continued)

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 (2019: 19.9%), and in 2020, a 18.06% holding in Auckland International Airport Limited (2019: 21.99%). Refer to Note F3 for details related to the investment in Auckland International Airport Limited.

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

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

Borrower notes

Borrower notes are subordinated convertible debt instruments that the council subscribes for in an amount equal to 2.5% of the total borrowing from LGFA. LGFA will redeem borrower notes or convert to equity under specific circumstances 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:

<u>Credit Support Annex (CSA)</u>
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 2020, the group and the council had a liability of $13 million (2019: $3 million, refer to Note D3) for repayment of cash collateral received from HSBC, and an asset of $66 million for cash collateral pledged to Citibank (2019: $23 million, refer to Note D3).

<u>Unlisted shares</u>
The group and the council have investments of $8 million (2019: $7 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.

<u>Other financial assets</u>
On 30 September 2019, the council entered into an agreement with Eden Park Trust (EPT) to provide a revolving loan facility in the maximum aggregate amount of $54 million. EPT has pledged its stadium asset in order to fulfil the collateral requirement for the facility.

At initial recognition, the drawn loan amount of $46.5 million was recognised as an originated credit-impaired financial asset and had an undiscounted expected credit loss of $46.5 million.

As at 30 June 2020, the outstanding balance on the revolving cash advance facility of $45 million had a carrying value of nil in the financial statements. The loss allowance has reduced by $1.5 million due to a net repayment of the same amount during the year. However, due to inherent uncertainty around EPT's ability to repay the facility, the group recognised a provision for the undrawn loan commitment in full. Refer Note D5 for further information on the provision.

Section C: Borrowings and financial instruments

C3 Other financial assets (continued)

Explanation of significant variances against budget

	Group		Auckland Council	
2020 $million	**Actual**	**Budget**	**Actual**	**Budget**
Other financial assets	1,978	293	4,424	2,332

Group

Other financial assets were higher than budgeted mainly due to the unanticipated change in accounting for AIAL which resulted in a $1.75 billion increase in other financial assets. Refer Note F3 for further information on the change in accounting.

Auckland Council

Other financial assets were higher than budget for the following reasons:

- As mentioned above, the change in accounting for AIAL resulted in a $1.75 billion unanticipated increase; and
- Related party loans, to Watercare in particular, were higher than budget.

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.

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

		Group		Auckland Council	
$million	**Level**	**2020**	**2019**	**2020**	**2019**
Financial assets at fair value through surplus or deficit					
Investment in managed funds	1	11	12	-	-
Borrower notes	2	45	39	45	39
Loans to related party - Watercare	2	-	-	2,026	1,754
Unlisted shares	3	8	7	8	7
Financial assets at fair value through other comprehensive revenue and expenditure					
Listed shares	1	1,803	44	1,750	-
Derivative assets	2	647	443	650	451
Total financial assets		**2,514**	**545**	**4,479**	**2,251**
Derivative liabilities	2	2,720	1,848	2,709	1,838
Total financial liabilities		**2,720**	**1,848**	**2,709**	**1,838**

There were no transfers between the different levels of the fair value hierarchy during the year (2019: $nil).

Section C: Borrowings and financial instruments

C4 Fair value and classification of financial instruments (continued)

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	Fair value	Other comprehensive revenue and expenditure
Amortised cost	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 on a net-basis 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:

	Group			
	2020		2019	
$million	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Financial assets at fair value through surplus or deficit				
Borrower notes	45	45	39	39
Investments in managed funds	11	11	12	12
Unlisted shares	8	8	7	7
Derivative assets	647	647	443	443
	711	**711**	**501**	**501**
Financial assets at fair value through other comprehensive revenue and expenditure				
Listed shares	1,803	1,803	44	44
	1,803	**1,803**	**44**	**44**
Financial assets at amortised cost				
Cash and cash equivalents	298	298	294	294
Receivables (excluding GST receivables and prepayments)	510	510	462	462
Loans to related parties	4	4	4	4
Other financial assets	106	106	82	82
	918	**918**	**842**	**842**
Total assets	**3,432**	**3,432**	**1,387**	**1,387**
Liabilities				
Financial liabilities at fair value through surplus or deficit				
Derivative liabilities	2,710	2,710	1,838	1,838
	2,710	**2,710**	**1,838**	**1,838**
Financial liabilities at amortised cost				
Bank overdraft	3	3	3	3
Borrowings	10,214	10,754	8,958	9,461
Payables and accruals (excluding income received in advance)	823	823	820	820
Financial guarantees	1	1	41	41
	11,041	**11,581**	**9,822**	**10,325**
Derivatives in hedge relationships				
Derivative liabilities	10	10	10	10
	10	**10**	**10**	**10**
Total liabilities	**13,761**	**14,301**	**11,670**	**12,173**

Section C: Borrowings and financial instruments

C4 Fair value and classification of financial instruments (continued)

	Auckland Council			
	2020		2019	
$million	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Financial assets at fair value through surplus or deficit				
Borrower notes	45	45	39	39
Unlisted shares	8	8	7	7
Loans to related party - Watercare	2,026	2,026	1,754	1,754
Derivative assets	650	650	451	451
	2,729	**2,729**	**2,251**	**2,251**
Financial assets at fair value through other comprehensive revenue and expenditure				
Listed shares	1,750	1,750	-	-
	1,750	**1,750**	**-**	**-**
Financial assets at amortised cost				
Cash and cash equivalents	243	243	205	205
Receivables (excluding GST receivables and prepayments)	266	266	283	283
Loans to related parties	492	552	499	563
Other financial assets	103	103	78	79
	1,104	**1,164**	**1,065**	**1,130**
Total assets	**5,583**	**5,643**	**3,316**	**3,381**
Liabilities				
Financial liabilities at fair value through surplus or deficit				
Derivative liabilities	2,709	2,709	1,838	1,838
	2,709	**2,709**	**1,838**	**1,838**
Financial liabilities at amortised cost				
Borrowings	9,722	10,261	8,463	8,965
Payables and accruals (excluding income received in advance)	691	691	660	660
Financial guarantees	1	1	41	41
	10,414	**10,953**	**9,164**	**9,666**
Total liabilities	**13,123**	**13,662**	**11,002**	**11,504**

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.

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Short-term deposits	155	133	155	161
Cash on hand and on-demand bank deposits	143	161	88	44
Cash and cash equivalents	**298**	**294**	**243**	**205**
Bank overdraft	(3)	(3)	-	-
Net cash and cash equivalents	**295**	**291**	**243**	**205**

During the COVID-19 lockdown, Auckland Council Group (the group) and Auckland Council (the council)'s strategy was to hold higher cash balances than previously due to the uncertainty of cash flows and to ensure that commitments could be met in the ordinary course of business. Since then, concern over liquidity has dissipated with financial markets largely returning to normal. The group and council will continue to maintain bank facilities of up to $1.3 billion and maintain its policy to hold cash and cash equivalent (including bank facilities) balances of 6 months or more of forecast cash outgoings.

Significant judgements and estimates used in valuing cash and cash equivalents

There are no changes to the assumptions used in the fair value of cash and cash equivalents due to the financial impact of the COVID-19 pandemic or any other factor.

The group and council maintain funds that relate to trusts and bequests received, and other funds received with restrictions, where the spending of the funds is closely monitored. Unspent funds subject to restrictions were:

$million	**2020**	**2019**
Group	75	80
Auckland Council	43	21

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.

Section D: Working capital and equity

D2 Receivables and prepayments (continued)

$million	Group 2020	Group 2019	Auckland Council 2020	Auckland Council 2019
Current				
Trade receivables	248	272	112	134
Less provision for impairment	(43)	(36)	(18)	(14)
Rates receivables	81	59	81	59
Related party receivables	-	-	48	69
Net receivables	**286**	**295**	**223**	**248**
Accrued income	155	120	26	24
GST receivable	13	6	32	24
Insurance recoveries	-	-	-	-
Prepayments	63	39	49	18
Other	26	15	9	4
Total current	**543**	**475**	**339**	**318**
Receivables from exchange transactions	243	207	98	60
Receivables from non-exchange transactions	300	268	241	258
Non-current				
Rates receivables	5	4	5	4
Prepayments	15	9	11	1
Other	38	28	3	3
Total non-current	**58**	**41**	**19**	**8**
Receivables from exchange transactions	49	34	10	1
Receivables from non-exchange transactions	9	7	9	7
Total receivables and prepayments	**601**	**516**	**358**	**326**

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.

Impact of the COVID-19 pandemic on rates debtor balances

To reduce the pressure on residents and businesses facing economic hardship, the group offered all ratepayers experiencing financial hardship the opportunity to defer payment of their fourth quarter rates instalments until 31 August 2020. This rates postponement resulted in a $21.8 million increase in rates debtors at 30 June 2020. Over 9,000 rating properties requested the deferral, which amounted to $20.6 million worth of rates. This amount included $15.3 million for commercial properties, $4.9 million for residential properties, and $0.4 million for lifestyle and farmhouse.

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.

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	2020 Gross carrying amount	2020 Expected loss rate (%)	2020 Provision for impairment	2019 Gross carrying amount	2019 Expected loss rate (%)	2019 Provision for impairment
Group						
Current	79	(1.3%)	(1)	84	0.0%	-
Past due 1 to 60 days	109	(2.8%)	(3)	127	(1.6%)	(2)
Past due > 60 days	143	(27.3%)	(39)	120	(29.2%)	(34)
Total	**331**		**(43)**	**331**		**(36)**
Auckland Council						
Current	70	0.0%	-	94	0.0%	-
Past due 1 to 60 days	86	(3.5%)	(3)	92	(1.1%)	(1)
Past due >60 days	85	(18.8%)	(16)	76	(17.1%)	(13)
Total	**241**		**(19)**	**262**		**(14)**

Significant judgements and estimates used in valuing receivables

Due to the COVID-19 pandemic, we considered impacts from specific management actions, our observable customer behaviours and how the pandemic may affect our businesses. We took a more conservative approach in applying management judgement to estimate our allowance for doubtful debts. The council increased the expected loss rates for the following types of receivables to 100 per cent at the end of the year:

- Debts to be recovered by collection agency; and
- Debts to be recovered by legal means.

In addition, the increased number of customers going into liquidation has also contributed to a higher allowance for the year. As a result, we have increased the allowance for doubtful debts by $4 million.

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.

Section D: Working capital and equity

D3 Payables and accruals (continued)

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Current				
Trade payables and accruals	708	670	230	239
Revenue received in advance	78	64	25	24
Deposits and bonds	37	37	33	31
Credit support annex (refer to Note C3)	13	3	13	3
Amounts due to related parties	-	-	350	322
Other	47	95	59	61
Total current	**883**	**869**	**710**	**680**
Payables from exchange transactions	791	778	264	262
Payables from non-exchange transactions	92	91	446	418
Non-current				
Revenue received in advance	119	91	123	94
Other	18	15	6	4
Total non-current	**137**	**106**	**129**	**98**
Payables from exchange transactions	131	95	104	73
Payables from non-exchange transactions	6	11	25	25
Total payables and accruals	**1,020**	**975**	**839**	**778**

The council's non-current payables and accruals includes an obligation to give 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 2020 amounted to $20.4 million (2019: $20.9 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.

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.

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Current				
Short-term employee benefits	125	104	67	57
Other	2	2	2	2
Total current	**127**	**106**	**69**	**59**
Non-current				
Other	5	5	1	1
Total non-current	**5**	**5**	**1**	**1**
Total employee entitlements	**132**	**111**	**70**	**60**

Short-term employee benefits increased significantly for the group and the council due to two factors:

- the conclusion of the review of compliance with the Holidays Act 2003 resulted in a significant increase in annual leave rates as well as hours, amounting to approximately $1.8 million; and
- the COVID-19 lockdown impacted employees' abilities to take leave, resulting in an increase in accumulated leave balances. This was partly offset by initiatives across the group to encourage the use of annual leave to reduce the group and the council's short-term employee benefits liability. The net impact was approximately a $24 million increase in the employee entitlements liability.

Section D: Working capital and equity

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 *Revenue from Exchange Transactions*.

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 (0.2% to 2.7%). At 30 June 2020, the group and the council determined that risk-free rates, appropriately represented the risks specifically related to time value of money (2019: 1.0% to 3.0%).

Explanation of significant variances against budget

	Group		Auckland Council	
2020 $million	**Actual**	**Budget**	**Actual**	**Budget**
Provisions	515	230	483	218

Group and Auckland Council

Increases to provisions are not budgeted, therefore the unbudgeted increase relates mainly to the increases in weathertightness and associated building defects, and contaminated and closed landfills provisions.

Impact of the COVID-19 pandemic

As mentioned in Note A5 Finance costs, market interest rates declined sharply as a result of the COVID-19 pandemic. Lower interest rates have impacted the discount rate used in calculating the group's long-term provisions, which has resulted in a significant increase in provisions, in particular, the contaminated land and closed landfill provision. The average discount rate over 30 years has decreased from 2.62% in December 2019 to 1.77% in June 2020 resulting in a $13 million increase in the contaminated land and closed landfill provision.

Section D: Working capital and equity

D5 Provisions (continued)

Group $million	Weather-tightness and associated building defect claims	Contaminated land and closed landfills	Financial guarantees	Other	Total
Opening balance	238	143	41	48	470
Additional provisions and increases to existing provisions	86	28	-	45	159
Amounts used	(51)	(9)	-	(26)	(86)
Reversal of previously recognised provisions	-	-	(40)	(4)	(44)
Change in discount rate	-	14	-	-	14
Discount unwind	2	1	-	(1)	2
Balance as at 30 June 2020	**275**	**177**	**1**	**62**	**515**
Current	52	6	-	41	99
Non-current	223	171	1	21	416
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
Balance as at 30 June 2019	**238**	**143**	**41**	**48**	**470**
Current	87	12	40	32	171
Non-current	151	131	1	16	299

Auckland Council $million	Weather-tightness and associated building defect claims	Contaminated land and closed landfills	Financial guarantees	Other	Total
Opening balance	238	136	41	40	455
Additional provisions and increases to existing provisions	86	26	-	33	145
Amounts used	(51)	(9)	-	(22)	(82)
Reversal of previously recognised provisions	-	-	(40)	(3)	(43)
Change in discount rate	-	7	-	-	7
Discount unwind	2	-	-	(1)	1
Balance as at 30 June 2020	**275**	**160**	**1**	**47**	**483**
Current	52	6	1	28	87
Non-current	223	154	-	19	396
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
Balance as at 30 June 2019	**238**	**136**	**41**	**40**	**455**
Current	87	11	40	27	165
Non-current	151	125	1	13	290

Section D: Working capital and equity

D5 Provisions (continued)

Provision for weathertightness and associated building defect claims

The group and the council are required to make provision in their accounts for weathertightness and associated building defect claims covering active, reported and unreported claims.

The provision for weathertightness and associated building defect claims includes uninsured costs for which the council is liable, such as the remediation of weathertightness issues, the remediation of fire and structural engineering defects, and any additional costs associated with managing and resolving these claims. The provision is comprised of:

$million	Multi-unit buildings	Single buildings	Total
Active provision	183	5	188
Reported provision	13	15	28
Unreported provision	46	13	59
Balance as at 30 June 2020	**242**	**33**	**275**
Active provision	130	3	133
Reported provision	17	16	33
Unreported provision	55	17	72
Balance as at 30 June 2019	**202**	**36**	**238**

Active claims are those claims which have been lodged with the council and are progressing through the resolution process. They have a loss reserve which represents remediation costs, and a cost reserve, which represents the cost of managing and resolving the claim, and are progressing through. There is a high degree of uncertainty overestimates for active claims.

The provision for reported and unreported claims is based on statistical analysis performed 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 council may be subject to further liability. This further liability is considered to be an unquantifiable contingency (refer to Note F4).

Significant judgements and estimates used in calculating provision for weathertightness

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 487 dwellings that are currently reported (376 multi and 111 single) with a discontinuance rate then applied (10% multi and 30% single).

Unreported claims

- Prevalence rates indicate there is an estimated 411 dwellings (367 multi and 44 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 55% for a multi and 60% for a single.
- Contribution by the group toward the settlement is 65% for multi and 55% 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.

Section D: Working capital and equity

D5 Provisions (continued)

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

Settled year ended 30 June ($million)													
2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	**Total**
53	42	116	11	7	7	8	7	6	6	5	4	3	**275**

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

	2020		**2019**	
	10%	**-10%**	**10%**	**-10%**
$million	**Effect on surplus or deficit**		**Effect on surplus or deficit**	
Amount claimed	(27)	27	(24)	24
Council contribution to settlement	(27)	27	(24)	24
Settlement level award	(27)	27	(24)	24
Discontinuance rate	11	(9)	12	(11)

Provision for remediation of contaminated land and closed landfills

The group and Auckland 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

- 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 and other provisions

Eden Park Trust
In prior years the council provided a financial guarantee in relation to a $40 million ASB Bank Limited (ASB) loan to Eden Park Trust (EPT). This loan was due for repayment on 30 September 2019 and the guarantee had been fully provided for.

In September 2019 the $40 million EPT loan and other facilities with ASB were assigned to the group under an assignment and termination agreement in consideration for the group paying $40 million to ASB, which released the group from any further obligations under the ASB guarantee. The group then restructured the loan into a $54 million revolving cash advance facility which was provided to EPT on normal commercial terms.

Due to the inherent uncertainty around Eden Park Trust's ability to repay the facility, the group recognised a provision for the undrawn loan commitment, being the difference between the total facility and the drawn commitment of $9 million. This provision is included in Other provisions.

Refer to Note C3 for further information on the loan.

Section D: Working capital and equity

D5 Provisions (continued)

Leave entitlements
Included in other provisions in the prior year was a $12 million liability for the group, and $11 million for the council related to leave entitlement calculation issues under the Holidays Act 2003. This liability was largely settled during the year, and an immaterial provision remains for any further claims by former employees.

Legal claims
Included within other provisions is a provision for legal claims of $8 million (2019: $1 million). The likelihood of payment of each claim brought against the group and council has been assessed and a 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 considering 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.

Termination benefits
Provision for termination benefits of $0.8 million for the group and $0.3 million for the council were recognised for the expected costs arising from organisational restructures to reduce costs due to COVID-19. These amounts are recognised as current liabilities and are expected to be paid out within the next 12 months.

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.

	Group		**Auckland Council**	
$million	**2020**	**2019**	**2020**	**2019**
Contributed equity	**26,732**	**26,732**	**26,569**	**26,569**
Accumulated funds	**2,451**	**1,788**	**(1,488)**	**(1,263)**
Reserves				
Asset revaluation reserves				
Opening balance	9,536	9,535	3,620	3,648
Transferred from/(to) accumulated funds	(66)	(55)	(35)	(28)
Change in fair value recognised during the year	733	56	-	-
Closing balance	10,203	9,536	3,585	3,620
Restricted equity				
Opening balance	231	116	229	111
Transfer in/(out) during the year	38	115	37	118
Closing balance	269	231	266	229
Share of associates' reserves				
Opening balance	725	718	725	-
Increase in investment	-	-	-	718
Other comprehensive revenue and expenditure	(146)	7	(146)	7
Transfer to accumulated funds	(600)	-	(600)	-
Recycled through surplus or deficit	21	-	21	-
Closing balance	-	725	-	725
Financial investments - Fair value through other comprehensive revenue and expense reserve				
Opening balance	30	30	-	-
Gain on equity instruments designated at fair value through other comprehensive revenue	164	-	154	-
Closing balance	194	30	154	-
Cash flow hedge reserve				
Opening balance	-	4	-	-
Change in fair value recognised during the year	-	(4)	-	-
Closing balance	-	-	-	-
Total reserves	**10,666**	**10,522**	**4,005**	**4,574**
Total ratepayer equity	**39,849**	**39,042**	**29,086**	**29,880**

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 LGA 2002) 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 2020.

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.

To achieve this objective, the group and the council have asset management plans in place 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 LGA 2002 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. It 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 2020 and 30 June 2019.

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 Trusts and bequests	Activity	Opening balance	Transfers to reserve	Transfers from reserve	Closing balance	Purpose
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
Total trusts and bequests		**2**	**-**	**-**	**2**	

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	50	28	(25)	53	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	13	30	(30)	13	Protection of the natural environment
Rodney Local Board Transport Targeted Rate	Roads and footpaths and public transport and travel demand management	3	5	(3)	5	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	21	42	(51)	12	Ensure cleaner beaches, streams and harbours
Accommodation Provider Targeted Rate	Auckland Tourism, Events and Economic Development activity	-	10	(10)	-	Grow the visitor economy
Total targeted rates		**89**	**115**	**(119)**	**85**	

$million Reserves	Activity	Opening balance	Transfers to reserve	Transfers from reserve	Closing balance	Purpose
Araparera Forest Reserve	Roads and footpaths	1	-	(1)	-	Roading development in the Rodney area
Community Recreation and Sport Fund	Local community services	3	-	-	3	Sports and recreational 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	Development of 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	1	-	(1)	-	Improvement of costal recreation opportunities
New Windsor Rd Reserve (Whau Local Board)	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	-	(4)	6	Off- street parking initiatives
Papakura Golf Course Reserve	Regional community services	2	-	-	2	Development of Papakura Golf course
Queen Elizabeth II Square Reserve	Local planning and development	24	-	(13)	11	Development and revitalisation of the city centre
Regional Fuel Tax Reserve	Roads and footpaths	67	144	(79)	132	Transport projects
Waste Minimisation Reserve	Waste and environmental services	12	6	(10)	8	Implementation of waste minimisation initiatives
Zoo Conservation Fund	Regional facilities	1	-	-	1	Support of conservation efforts in the wild
Total reserves		**140**	**150**	**(108)**	**182**	
Total restricted equity		**231**	**265**	**(227)**	**269**	

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 rates, foreign exchange, counterparty credit, liquidity and investment.

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 not be inconsistent 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 sub-section 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 its policies.

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

E1 Interest rate risk

E2 Credit risk

E3 Foreign exchange risk

E4 Liquidity risk

Management's consideration of the impact of the COVID-19 pandemic on the financing of the group and the council are outlined in Note E5 Impact of COVID-19 pandemic.

Section E: Financial risk management

E1 Interest rate risk

Risk definition

Interest rate risk is the risk that the 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:
- actively managing interest rates through the use of a mix of derivatives and fixed rate debt; and
- managing interest rates on both current and forecast debt.

The group manages interest rates on a portfolio basis. The group's risk management approach aims, over the long term, to:
- minimise volatility and provide certainty of interest costs thereby reducing 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.

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 (where 100 basis points equals 1 per cent). 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:

	2020				2019			
Group	**-100bps/-1%**		**+100bps/+1%**		**-100bps/-1%**		**+100bps/+1%**	
$million	**Surplus/ (deficit)**	**Equity**	**Surplus/ (deficit)**	**Equity**	**Surplus/ (deficit)**	**Equity**	**Surplus/ (deficit)**	**Equity**
Cash and cash equivalents and term deposits	(3)	-	3	-	(3)	-	3	-
Derivative financial instruments[1]	(666)	(3)	574	3	(656)	(4)	562	4
Fixed rate borrowings (repricing within next 12 months)	5	-	(5)	-	5	-	(5)	-
Floating rate borrowings	38	-	(38)	-	31	-	(31)	-
Other financial assets	(1)	-	1	-	(1)	-	1	-
Total sensitivity to interest rate risk	**(627)**	**(3)**	**535**	**3**	**(624)**	**(4)**	**530**	**4**

	2020				2019			
Auckland Council	**-100bps/-1%**		**+100bps/+1%**		**-100bps/-1%**		**+100bps/+1%**	
$million	**Surplus/ (deficit)**	**Equity**	**Surplus/ (deficit)**	**Equity**	**Surplus/ (deficit)**	**Equity**	**Surplus/ (deficit)**	**Equity**
Cash and cash equivalents and term deposits	(2)	-	2	-	(2)	-	2	-
Derivative financial instruments[1]	(665)	-	573	-	(655)	-	560	-
Loans to related parties	(20)	-	20	-	(18)	-	18	-
Fixed rate borrowings (repricing within next 12 months)	5	-	(5)	-	5	-	(5)	-
Floating rate borrowings	35	-	(35)	-	28	-	(28)	-
Other financial assets	(1)	-	1	-	(1)	-	1	-
Total sensitivity to interest rate risk	**(648)**	**-**	**556**	**-**	**(643)**	**-**	**548**	**-**

[1] 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.

Section E: Financial risk management

E1 Interest rate risk (continued)

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 $12 million loss while a decrease in the basis spread of 10 basis points is a $12 million gain. The sensitivity of the basis 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 may arise 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.

Risk management

The group seeks to limit counterparty exposure by:
- only transacting with counterparties with acceptable credit ratings;
- avoiding concentrations of credit exposure to one counterparty by spreading exposures amongst many 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. Loans to Auckland Transport and Watercare amounted to $490 million and $2,026 million, respectively (2019: $497 million and $1,754 million, respectively).

<u>Other exposures</u>
In addition to the above credit exposures, the group and the council are exposed to financial guarantees provided to third parties. At 30 June 2020, total financial guarantees for the group are $9.1 billion (2019: $7.1 billion) and $9.1 billion for the council (2019: $7.1 billion). Certain guarantees have been provided for as disclosed in the provisions note. Refer to Notes D5 and F4 for further information.

<u>Rated counterparties</u>
At balance date, $1.1 billion (2019: $0.8 billion) of assets with credit risk held by the group and $1.0 billion (2019: $0.7 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.

<u>Unrated counterparties</u>
With the exception of certain community loans, the council cannot invest with unrated counterparties. In the year to 30 June 2020 the group and the council have no community loan counterparties that defaulted (2019: nil).

Section E: Financial risk management

E2 Credit risk (continued)

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

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 consider 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. A summary of the group and Auckland 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 assessed the loss allowance provision for loans to related parties as at 30 June 2020. 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 2020 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 considers 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 2020 and the results are disclosed in Notes 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 $4,757 million at 30 June 2020 (30 June 2019: $3,794 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
2020	17%	13%	62%	8%	100%
2019	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 2020, 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 (2019: 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.

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 single 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;

Section E: Financial risk management

E4 Liquidity risk (continued)

- not giving financial covenants in respect of any borrowing except for a most favoured lender clause and those already given to the LGFA;
- maintaining an AA/Aa2 credit rating;
- complying with borrowing covenants imposed by the LGFA; 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 (2019: $1.3 billion) that can be drawn at any time and overdraft facilities of $19 million (2019: $19 million). The undrawn bank facilities will mature between May 2021 and July 2024. This includes the council's syndicated committed cash advance facilities of $1.2 billion (2019: $1.2 billion) and a revolving credit facility that fluctuates between $100 million and $200 million (2019: $100 million - $200 million).

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.

Group	2020							
$million	**Carrying amount**	**On demand**	**<1 year**	**1-2 years**	**2-5 years**	**5-10 years**	**>10 years**	**Total contractual cash flows**
Non-derivative financial assets								
Cash and cash equivalents	298	143	155	-	-	-	-	298
Receivables (excluding GST receivables and prepayments)	510	31	445	21	13	-	-	510
Other financial assets	166	2	92	9	34	22	13	172
Total non-derivative financial assets	**974**	**176**	**692**	**30**	**47**	**22**	**13**	**980**
Derivative financial assets								
Derivative financial assets net settled	94	-	32	24	41	8	-	105
Derivative financial assets gross settled[1]	553							
Inflows		-	76	297	1,380	2,115	519	4,387
Outflows		-	(56)	(316)	(1,249)	(1,992)	(512)	(4,125)
		-	**20**	**(19)**	**131**	**123**	**7**	**262**
Total derivative financial assets	**647**	**-**	**52**	**5**	**172**	**131**	**7**	**367**
Total financial assets	**1,621**	**176**	**744**	**35**	**219**	**153**	**20**	**1,347**
Non-derivative financial liabilities								
Bank overdraft	3	3	-	-	-	-	-	3
Payables and accruals (excluding income received in advance)	823	78	743	3	-	-	-	824
Secured borrowings[2]	9,727	-	1,262	1,305	3,452	3,978	599	10,596
Unsecured borrowings	487	-	30	62	291	151	65	599
Financial guarantees[3]	1	9,146	-	-	-	-	-	9,146
Total non-derivative financial liabilities	**11,041**	**9,227**	**2,035**	**1,370**	**3,743**	**4,129**	**664**	**21,168**
Derivative financial liabilities								
Derivative financial liabilities net settled	2,647	-	286	305	949	1,038	150	2,728
Derivative financial liabilities gross settled[1]	73							
Inflows		-	(58)	(3)	(3)	(880)	-	(944)
Outflows		-	72	12	38	956	-	1,078
		-	**14**	**9**	**35**	**76**	**-**	**134**
Total derivative financial liabilities	**2,720**	**-**	**300**	**314**	**984**	**1,114**	**150**	**2,862**
Total financial liabilities	**13,761**	**9,227**	**2,335**	**1,684**	**4,727**	**5,243**	**814**	**24,030**
Net contractual cash flows		**(9,051)**	**(1,591)**	**(1,649)**	**(4,508)**	**(5,090)**	**(794)**	**(22,683)**

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

[1] 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.
[2] Cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.
[3] 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	2020							
$million	**Carrying amount**	**On demand**	**<1 year**	**1-2 years**	**2-5 years**	**5-10 years**	**>10 years**	**Total contractual cash flows**
Non-derivative financial assets								
Cash and cash equivalents	243	88	155	-	-	-	-	243
Receivables (excluding prepayments)	266	-	267	-	-	-	-	267
Other financial assets	2,666	-	124	2,007	143	203	683	3,160
Total non-derivative financial assets	**3,175**	**88**	**546**	**2,007**	**143**	**203**	**683**	**3,670**
Derivative financial assets								
Derivative financial assets net settled	94	-	32	24	41	8	-	105
Derivative financial assets gross settled[1]	556							
Inflows		-	126	295	1,380	2,115	519	4,435
Outflow		-	(104)	(314)	(1,249)	(1,992)	(512)	(4,171)
		-	**22**	**(19)**	**131**	**123**	**7**	**264**
Total derivative financial assets	**650**	**-**	**54**	**5**	**172**	**131**	**7**	**369**
Total financial assets	**3,825**	**88**	**600**	**2,012**	**315**	**334**	**690**	**4,039**
Non-derivative financial liabilities								
Payables and accruals (excluding income received in advance)	691	-	689	-	-	-	-	689
Secured borrowings[2]	9,722	-	1,261	1,304	3,449	3,978	599	10,591
Financial guarantees[3]	1	9,146	-	-	-	-	-	9,146
Total non-derivative financial liabilities	**10,414**	**9,146**	**1,950**	**1,304**	**3,449**	**3,978**	**599**	**20,426**
Derivative financial liabilities								
Derivative financial liabilities net settled	2,636	-	282	302	946	1,038	150	2,718
Derivative financial liabilities gross settled[1]	73							
Inflows		-	(51)	(3)	(3)	(880)	-	(937)
Outflows		-	64	12	38	956	-	1,070
		-	**13**	**9**	**35**	**76**	**-**	**133**
Total derivative financial liabilities	**2,709**	**-**	**295**	**311**	**981**	**1,114**	**150**	**2,851**
Total financial liabilities	**13,123**	**9,146**	**2,245**	**1,615**	**4,430**	**5,092**	**749**	**23,277**
Net contractual cash flows		**(9,058)**	**(1,645)**	**397**	**(4,115)**	**(4,758)**	**(59)**	**(19,238)**

[1] 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.
[2] Cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.
[3] 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**
Non-derivative financial assets								
Cash and cash equivalents	205	206	-	-	-	-	-	206
Receivables (excluding prepayments)	283	-	283	-	-	-	-	283
Other financial assets	2,368	-	91	1,755	139	208	719	2,912
Total non-derivative financial assets	**2,856**	**206**	**374**	**1,755**	**139**	**208**	**719**	**3,401**
Derivative financial assets								
Derivative financial assets net settled	70	-	26	21	29	8	-	84
Derivative financial assets gross settled[1]	381							
Inflows		-	154	59	447	2,660	347	3,667
Outflow		-	(178)	(84)	(493)	(2,596)	(359)	(3,710)
		-	**(24)**	**(25)**	**(46)**	**64**	**(12)**	**(43)**
Total derivative financial assets	**451**	**-**	**2**	**(4)**	**(17)**	**72**	**(12)**	**41**
Total financial assets	**3,307**	**206**	**376**	**1,751**	**122**	**280**	**707**	**3,442**
Non-derivative financial liabilities								
Payables and accruals (excluding income received in advance)	660	-	660	-	-	-	-	660
Secured borrowings[2]	8,463	-	1,377	917	2,540	4,112	619	9,565
Financial guarantees[3]	41	7,156	-	-	-	-	-	7,156
Total non-derivative financial liabilities	**9,164**	**7,156**	**2,037**	**917**	**2,540**	**4,112**	**619**	**17,381**
Derivative financial liabilities								
Derivative financial liabilities net settled	1,767	-	181	204	623	753	167	1,928
Derivative financial liabilities gross settled[1]	71							
Inflows		-	(125)	(37)	(269)	(313)	(186)	(930)
Outflows		-	128	31	308	369	187	1,023
		-	**3**	**(6)**	**39**	**56**	**1**	**93**
Total derivative financial liabilities	**1,838**	**-**	**184**	**198**	**662**	**809**	**168**	**2,021**
Total financial liabilities	**11,002**	**7,156**	**2,221**	**1,115**	**3,202**	**4,921**	**787**	**19,402**
Net contractual cash flows		**(6,950)**	**(1,845)**	**636**	**(3,080)**	**(4,641)**	**(80)**	**(15,960)**

[1] 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.
[2] Cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.
[3] 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

E5 Impact of COVID-19 pandemic

Interest rate risk

The COVID-19 pandemic has resulted in historically low interest rates in New Zealand. On 16 March 2020 the Reserve Bank of New Zealand reduced the Official Cash Rate to 0.25% and indicated that it is likely to stay at this level until March 2021. The impact of a lower yield curve has also resulted in an increase in the mark to market loss on our interest rate swap portfolio.

Credit risk

The COVID-19 pandemic has had a relatively immaterial impact on the group's credit risk. The council's treasury policy specifies that the council can only deal with counterparties with a credit rating of A- or above. The COVID-19 pandemic put financial pressure on some of our banking and financial counterparties with whom we deal, however, their credit ratings have remained stable.

Foreign exchange risk

Although the COVID-19 pandemic put some general downward pressure on the NZD against many currencies, there was little impact on the group as we hedge all foreign currency debt at inception, and material foreign exchange purchases are hedged at commitment date.

Liquidity risk

The COVID-19 pandemic sharply impacted access to funding via the debt capital markets during late March and April 2020. Investor demand for debt investments declined significantly with very few public debt issues. Despite this, the group raised $850 million of debt during late March and April 2020, in order to keep cash balances higher than normal. $200 million of this debt was raised through the LGFA (2 and 9 year maturities), $150 million was raised through the commercial paper market (less than 364 day maturities), with the $500 million balance being raised through short term private placement transactions to New Zealand based investors and banks (up to 2 year maturities). All the debt raised was at elevated credit margins compared to pre-COVID-19 pandemic levels.

During this period of uncertainty, the council continued to maintain up to $1.3 billion of bank standby and revolving credit facilities which were not used.

Since May 2020, the debt capital markets have largely returned to normal due to the extensive quantitative easing by global central banks. Domestic debt capital markets have been positively influenced by the introduction of the Reserve Bank of New Zealand's Large Scale Asset Purchases Programme, which includes the ability to purchase LGFA debt. The group has recently received positive investor interest from both domestic and offshore investors at credit margins similar to pre-COVID-19 pandemic levels.

Moody's Investors Services formally reviewed and reaffirmed the council's Aa2 credit rating and outlook on 28 April 2020 and subsequent to balance date, on 28 September 2020, S&P Global Ratings confirmed it AA credit rating. Both credit ratings are on "Stable" outlook. The group continues to maintain regular dialogue with both credit rating agencies.

Section F: Other disclosures

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:

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.

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Land and buildings	127	30	50	3
Other	-	29	-	-
Non-current assets held for sale	**127**	**59**	**50**	**3**

F2 Deferred tax assets and liabilities

On 17 March 2020, the government announced a package of measures in support of businesses via the COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act 2020. One of the measures was the reintroduction of tax depreciation on commercial and industrial buildings and the allowance for tax depreciation on newly acquired buildings and capital improvements made to existing buildings from the 2020/2021 tax year. The measure has had no impact on the council, but has resulted in an $11.8 million adjustment for Watercare Services Limited and a $2.2 million adjustment for Ports of Auckland Limited to reflect the future deductibility of qualifying buildings for the year ended 30 June 2020.

The movement in the group's deferred tax assets/liabilities is as follows:

$million	Property, plant and equipment	Intangible assets	Other	Tax losses carried forward	Total
Opening balance	(1,767)	(3)	(12)	316	(1,466)
Credited/(charged) to surplus/(deficit)	(22)	-	(5)	(45)	(72)
Credited/(charged) to other comprehensive revenue	-	-	-	-	-
Balance at 30 June 2020	**(1,789)**	**(3)**	**(17)**	**271**	**(1,538)**
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
Balance at 30 June 2019	**(1,767)**	**(3)**	**(12)**	**316**	**(1,466)**

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:

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Deferred tax assets	9	10	-	-
Deferred tax liabilities	(1,547)	(1,476)	-	-
Net deferred tax liabilities	**(1,538)**	**(1,466)**	**-**	**-**

Section F: Other disclosures

F3 Investment in other entities

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Investment in subsidiaries	-	-	19,681	19,731
Investment in associates	-	1,488	-	1,487
Investment in joint ventures	565	362	565	362
Total Investment in other entities	**565**	**1,850**	**20,246**	**21,580**

Investment in subsidiaries

Investment in subsidiaries includes the investment in CCOs (refer to Section H for list of CCOs) and Ports of Auckland Limited (POAL). These investments are carried at cost less any accumulated impairment.

Investment in joint ventures and associates

Accounting policy

Investments in associates and joint ventures are accounted for using the equity method in the group and 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.

Significant judgements and estimates used in classifying joint arrangements

For all joint arrangements structured in separate vehicles, management must assess the substance of each joint arrangement to determine whether it is classified as a joint venture or joint operation. This assessment requires management to consider whether it has rights to the joint arrangement's net assets (in which case it is classified as a joint venture), or rights to and obligations for specific assets, liabilities, revenues and expenses (in which case it is classified as a joint operation). Factors the group must consider include structure, legal form, contractual agreements and other facts and circumstances. On consideration of these factors, management has determined that all its joint arrangements structured through separate vehicles give it rights to the net assets and has therefore classified them as joint ventures.

The group and the council hold investments in the following joint ventures and associates as at 30 June 2020:

				Interest		
Entity	**Held by**	**Entity type**	**Relationship**	**2020**	**2019**	**Nature**
City Rail Link Limited	Council	Limited company	Joint venture	50.00%	50.00%	Design and construction of CRL
North Tugz Limited	Group	Limited company	Joint venture	50.00%	50.00%	Towage and pilotage services
PortConnect Limited	Group	Limited company	Joint venture	50.00%	50.00%	Online cargo management system
Waste Disposal Services	Council	Partnership	Joint venture	50.00%	50.00%	Landfill business
Haumaru Housing Limited Partnership	Council	Limited partnership	Joint venture	49.00%	49.00%	Social rental housing for older people in Auckland
Longburn Intermodal Freight Hub Limited	Group	Limited company	Associate	33.30%	33.30%	Inland freight distribution hub
Tamaki Redevelopment Company Limited	Council	Limited company	Associate	41.00%	41.00%	Property development
New Lynn Central Limited Partnership	Group	Limited partnership	Associate	0.00%	42.00%	Property development

All entities are incorporate, domiciled and operate in New Zealand.

On 10 July 2019, New Lynn Central Limited Partnership was deregistered and removed from the limited partnerships register.

Section F: Other disclosures

F3 Investment in other entities (continued)

Auckland International Airport Limited (AIAL)

In the prior year, the group and the council's significant investment in an associate was AIAL. The key financial information was as follows:

$million	2019
Current assets	106
Non-current assets	8,591
Current liabilities	560
Non-current liabilities	2,104
Revenue	743
Tax expense	108
Other comprehensive revenue and expense	28
Total comprehensive revenue and expense	552
Dividends received by the council	59

Reconciliation of the summarised financial information presented to the equity accounted carrying amount for the group and the council's interest in AIAL.

$million	
Net assets of AIAL at 30 June 2019	6,033
Group's share of net assets	1,326
Goodwill	189
PBE IPSAS adjustments	(26)
Other adjustments	(2)
Equity accounted carrying amount	1,487

The prior year's fair value of the group and the council's investment in AIAL was $2,597 million.

The amounts presented are gross amounts taken directly from AIAL's financial statements prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and did not include measurement differences that relate to "for profit" entities.

Cessation of equity accounting for AIAL as associate and fair value of remaining shareholding in AIAL as equity instrument

Pursuant to AIAL's equity raising exercise of $1.2 billion to strengthen its financial position in response to the COVID-19 pandemic in April 2020, the group's interest in AIAL was diluted from 21.99% to 18.63% and subsequently to 18.09%.

Management assessed the effect of the dilution on the group's ability to influence AIAL's financing and operating policies and concluded that the group no longer has significant influence. The rebuttable presumption in PBE IPSAS 38 is that an entity does not have significant influence over another when its voting rights is less than 20%. Consequently, on 15 April 2020 the group ceased using the accounting for AIAL as an associate using the equity accounting method. Management estimated the equity accounted carrying value of the investment in associate based on available financial information. The investment was reclassified as an investment in an equity instrument.

It was remeasured to fair value on 15 April 2020 based on the closing price of AIAL's shares on the NZX. Management has deemed the closing price of AIAL's shares on the NZX, to be a reasonable estimate of the fair value of the investment in AIAL. The 18.63% interest in AIAL on 15 April 2020 had a fair value of $1,595 million and accordingly, a gain of $250 million on discontinuing equity accounting was recorded. The group and the council's share of AIAL's accumulated reserves at 15 April 2020 was $580 million. $600 million of property revaluation reserves were transferred to accumulated funds and $20 million of cash flow hedge reserve was reclassified to gain on discontinuing equity accounting of AIAL in the surplus or deficit.

At 30 June 2020 the investment was valued at the market value, being the quoted share price on the NZX.

Section F: Other disclosures

F3 Investment in other entities (continued)

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% of this $4.4 billion project. The ultimate ownership of assets constructed by CRLL will be with the sponsors and related entities such as KiwiRail and Auckland Transport, however the split of assets has yet to be decided. CRLL's key financial information is as follows:

$million	2020	2019
Current assets:		
Cash and cash equivalents	42	5
Other current assets	21	9
	63	14
Non-current assets	1,095	707
Current liabilities	61	27
Equity	1,097	694
Group's share in equity and carrying amount of the investment	548	347
Revenue	2	4
Expenses:		
Depreciation and amortisation expenses	4	7
Other expenses	111	47
	115	54
Deficit for the year	(113)	(50)
Other comprehensive revenue and expense	-	-
Total comprehensive revenue and expense	(113)	(50)
Group's share of results for the year	**(57)**	**(25)**

The council's remaining share of commitment to fund the CRL project is $1.8 billion (2019: $2 billion).

Reconciliation of the summarised financial information to the equity accounted carrying amount of the group and the council's interest in CRLL

$million	2020	2019
Opening balance	347	307
Share of results	(57)	(25)
Funding provided	258	65
Closing balance	**548**	**347**

Explanation of significant variances against budget

	Group		Auckland Council	
2020 $million	Actual	Budget	Actual	Budget
Investments in other entities	565	2,032	20,246	20,947

Group

Investment in other entities was $1.4 billion less than budget due to the unanticipated change in accounting for the investment in AIAL.

Auckland Council

Investment in other entities was $668 million lower than budget due to the disestablishment of Auckland Council Investments Limited, for which the financial effect was unbudgeted.

Section F: Other disclosures

F3 Investment in other entities (continued)

Impact of COVID-19 pandemic on CRLL

When New Zealand entered COVID-19 Alert Level 4, all construction work ceased, but recommenced on 28 April 2020 with Alert Level 3, albeit with physical distancing measures in place. On 8 June construction activity commenced without restriction. During all alert levels critical design, planning and consenting work continued which enabled the project to restart quickly. Notwithstanding that full cost impact of COVID-19 is yet to be finally determined across CRLL's construction contracts the expectation is that such costs will be able to be accommodated within the existing project budget.

Investments in other joint ventures

Aggregate financial information of the group's investments in other joint ventures are as follows:

$million	2020	2019
Current assets	19	18
Non-current assets	72	74
Current liabilities	20	26
Non-current liabilities	33	28
Equity	38	37
Total revenue	68	71
Total expense	51	50
Deficit after income tax	17	21
Other comprehensive revenue and expense	-	(1)
Total comprehensive revenue and expense	13	20
Group's share of results for the year	8	10

The joint ventures had no other contingent liabilities or capital commitments as at 30 June 2020 and 2019, except for CRLL as disclosed in Note F4.

Haumaru Housing Limited Partnership

The council 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.

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; and
- 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

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Guarantees and indemnities	9,146	7,115	9,146	7,115
Uncalled capital	2	2	2	2
Legal proceedings and disputes	38	61	38	61
Total quantifiable contingent liabilities	**9,186**	**7,178**	**9,186**	**7,178**

Section F: Other disclosures

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. 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 $11.9 billion (2019: $9.5 billion), of which the group and the council have borrowed $2.8 billion (2019: $2.4 billion). As a result, the group and the council's cross-guarantee on LGFA's loans to other local authorities is $9.1 billion (2019: $7.1 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 (2019: $2 million). When aggregated with the uncalled capital of other shareholders, $20 million is available in the event that an imminent default is identified.

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.

Section F: Other disclosures

F4 Contingencies, commitments and subsequent events (continued)

Unquantifiable contingent liabilities (continued)

Weathertightness and associated building defect claims	• A significant degree of estimation has been involved in calculating the provision for weathertightness and associated building defect claims. 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 and associated building defect claims remediation is provided in Note D5.
Homeowners and Carter Holt Harvey (CHH)	In the prior year, a group of homeowners initiated High Court proceedings against CHH and others alleging inherent defects in the shadow clad plywood cladding sheets manufactured and distributed by CHH. CHH has joined 19 councils as co-defendants in this claim. This claim is still in the initial procedural stages. The plaintiffs and CHH have agreed on trial staging and discovery – there will be a trial to determine whether shadow clad is inherently defective (stage one trial). Further plaintiffs were added to the claim on 23 December 2019, and the plaintiffs filed an amended statement of claim on 3 March 2020, adding the Clutha and Ashburton District Councils as further third parties. The Court issued a minute on 6 March 2020, allocating a stage one trial date of 8 February 2022. At present, the claim remains unquantified, and there is still insufficient information to conclude on potential liability, if any.
Accommodation Provider Targeted Rate Judicial Review	In May 2018, the council was served with legal proceedings challenging its 29 June 2017 decision to set a targeted rate for commercial accommodation providers. The High Court delivered judgment in March 2020 in the council's favour and the matter has subsequently been appealed by the applicants to the Court of Appeal. The Court of Appeal hearing is now set down for 12-14 April 2021. The council's maximum exposure is the total targeted rate levied after remissions, being $34 million, plus an unquantifiable amount to cover legal costs.

Contingent and future assets

Repurchase of heritage buildings	• In June 2004, one of the former councils sold a number of heritage buildings that form part of the Britomart precinct. • 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.
Entrust (previously named Auckland Energy Consumer Trust)	• The council is currently a capital beneficiary of Entrust when it terminates on 27 August 2073. • As at 30 June 2020, the group and the council are not able to reliably estimate the value of any future benefit that may result from this arrangement.
Shared Responsibility Scheme assets	• The council's Shared Responsibility Scheme was created to assist clubs with the construction of facilities on council-owned land. • 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. • 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.

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:

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Property, plant and equipment				
Roading networks	612	632	-	-
Water and wastewater	963	1,162	-	-
Operational land and buildings	290	107	103	85
Other operational assets	42	71	9	13
Rolling stock	58	114	-	-
Restricted improvements	25	35	26	42
Stormwater	127	277	136	284
Restricted parks, reserves and buildings	1	9	1	10
Wharves	5	4	3	-
Total property, plant and equipment	**2,123**	**2,411**	**278**	**434**
Intangible assets	35	39	4	9
Share of capital commitments from joint venture (CRLL)	783	73	783	73
Total capital commitments	**2,941**	**2,523**	**1,065**	**516**

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 construction of infrastructure assets to host the 36th America's Cup. As at 30 June 2020, the council has a financial commitment of $41 million to fund the operating and capital costs of which $19 million of the commitment will be reimbursed by MBIE. Further, 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.

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 (2019: 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.

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

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Minimum operating lease payments payable				
Not later than one year	134	122	16	15
Later than one year and not later than five years	472	442	16	20
Later than five years	350	359	8	5
Total minimum operating lease payments payable	**956**	**923**	**40**	**40**

Section F: Other disclosures

F4 Contingencies, commitments and subsequent events (continued)

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 $3 million have been recognised during the year for the group and the council (2019: $2 million). The total future sublease payments expected to be received under non-cancellable subleases at balance date is $3 million for the group and the council (2019: $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 72 years (2019: 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:

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Minimum operating lease payments receivable				
Not later than one year	56	46	20	22
Later than one year and not later than five years	162	129	47	53
Later than five years	202	152	119	125
Total minimum operating lease payments receivable	**420**	**327**	**186**	**200**

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, 1,214 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 (2019: 1,171 groups with leases 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 $0.7 million (2019: $0.6 million) for the group and the council.

Finance lease commitments

The group and the council as lessee

Finance leases are for various items of plant and equipment. The net carrying amount of the plant and equipment held under finance leases is $45 million for the group (2019: $41 million) and $40 million for the council (2019: $41 million). At 30 June 2020 the present value of minimum lease payments related to finance lease agreements is $5 million for the group (2019: $nil).

Section F: Other disclosures

F4 Contingencies, commitments and subsequent events (continued)

SUBSEQUENT EVENTS

The following events that took place subsequent to balance date have had no impact on the financial statements.

Government announcement of funding of shovel-ready projects

In April 2020 the group submitted a list of 73 projects for consideration of government shovel-ready funding. In August 2020 the government announced funding of shovel-ready projects for several projects, some of which had funding allocated within group budgets, while other projects did not. A summary of the funding is as follows:

Project	Group entity responsible	Funding status before shovel ready	Total agreed shovel-ready funding $million
Extension of Te Whau pathway through New Lynn and Te Atatū	Auckland Council	Unfunded	35.3
Community recycling infrastructure development	Auckland Council	Unfunded	10.7
Ferry basin redevelopment - stage 1	Auckland Transport	Funded	42.0
Upgrade to Puhinui creating a major bus and train interchange	Auckland Transport	Funded	22.1
North-western bus improvements including new bus interchanges at Te Atatū Rd, Lincoln Rd and Westgate	Auckland Transport	Unfunded	50.0
Infrastructure for housing including storm water, water supply, waster water and roading upgrades and development	Auckland Council, Watercare, Auckland Transport	Unfunded	188.0
Total			**348.1**

Funding will be provided by Crown Infrastructure Partners, the Ministry of Housing and Urban Development and Kāinga Ora to the relevant group entity on the completion of agreed milestones. Funding is subject to several terms and conditions, primarily around meeting agreed milestones, covering any cost overruns and achieving the benefits represented when submitting the project.

City Rail Link Limited contract awards

Link Alliance (Vinci Construction Grands Projets S.A.S., Downer NZ Limited, Solentache Bachy International NZ Limited, WSP Opus (NZ) Limited, AECOM New Zealand Limited and Tonkin + Taylor Limited), the C3 contractor, has been awarded the C5 and C7 contracts. The C5 contract is for the connection of tunnels into the existing North Auckland live rail corridor environment and the C7 contract is for rail systems, integration, testing and commissioning from Britomart to Mt Eden Stations.

Ministry of Education and Carter Holt Harvey

In 2013 the Ministry of Education initiated High Court Proceedings against Carter Holt Harvey (CHH) and others alleging inherent defect in the shadow clad plywood cladding sheets manufactured and distributed by CHH. In 2016, CHH began 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. On 3 September 2020 proceedings were discontinued against Auckland Council and the other councils.

Review of Auckland Council's CCOs

A report on the review of Auckland Council's CCOs, conducted by an independent panel, was issued to the public on 11 August 2020. One recommendation was that the CCOs Regional Facilities Auckland Limited (RFAL) and Auckland Tourism, Events and Economic Development Limited (ATEED), be merged and a steering group be appointed to implement the change. The Auckland Council Governing Body met on 27 August 2020 and approved this recommendation to be effective 1 December 2020.

Financial impact of the resumption of COVID-19 lockdown

COVID-19 Alert Level 3 lockdown resumed in Auckland on 12 August 2020 followed by lower alert levels from 30 August 2020. The lockdown did not have a material impact on the group results.

Section F: Other disclosures

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

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 it immaterial and not practical to include this information.

	Auckland Council			
	2020 $	2019 $	2020 FTE	2019 FTE
Mayor and councillors				
Remuneration	2,742,831	2,563,943		
Total mayor and councillors	**2,742,831**	**2,563,943**	**25**	**21**
Payments during the year to the chief executive				
-Salary and other short-term employee benefits	768,373	677,371		
-Post-employment benefit (Kiwi Saver contributions)	23,051	20,321		
Total chief executive remuneration	**791,424**	**697,692**	**1**	**1**
Executive leadership team				
-Salary and other short-term employee benefits	3,403,387	3,777,488		
-Post-employment benefit (Kiwi Saver contributions)	91,168	100,104		
-Termination benefits	-	244,785		
Total executive leadership team remuneration	**3,494,555**	**4,122,377**	**9**	**10**
Total key management personnel remuneration	**7,028,810**	**7,384,012**	**35**	**32**

Voluntary salary reduction

During the year, one of the measures taken by the group and the council to mitigate the negative financial impact of the COVID-19 pandemic was a voluntary salary reduction of executive leadership team members, CCO board chairs and directors, and senior employees. Further details can be found in Note A3 Employee benefits. These temporary salary reductions have affected the categorisation of employees into remuneration bands, as the number of employees in each remuneration band is identified as a snapshot at 30 June. Although not required by the LGA 2002, we have also shown employees in remuneration bands excluding the voluntary salary reductions which indicates what they would have received were if not for the voluntary salary reductions, in order to provide comparability with prior years.

Employee numbers and remuneration bands

	Group		Auckland Council	
Full-time equivalent	**2020**	**2019**	**2020**	**2019**
Full-time employees	9,726	9,502	5,554	5,667
Part time employees (full-time equivalent)	1,357	1,304	916	881
Total full-time equivalent	**11,083**	**10,806**	**6,470**	**6,548**

Section F: Other disclosures

F5 Related party transactions (continued)

Local government disclosures

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	Including voluntary salary reductions 2020	Number of employees	Excluding voluntary salary reductions 2020	Number of employees	2019
<$60,000	4,584	<$60,000	4,583	<$60,000	4,941
$60,000-$79,999	2,603	$60,000-$79,999	2,603	$60,000-$79,999	2,578
$80,000-$99,999	2,386	$80,000-$99,999	2,360	$80,000-$99,999	2,188
$100,000-$119,999	1,433	$100,000-$119,999	1,362	$100,000-$119,999	1,235
$120,000-$139,999	824	$120,000-$139,999	827	$120,000-$139,999	725
$140,000-$159,999	383	$140,000-$159,999	440	$140,000-$159,999	379
$160,000-$179,999	200	$160,000-$179,999	212	$160,000-$179,999	173
$180,000-$199,999	101	$180,000-$199,999	111	$180,000-$199,999	101
$200,000-$219,999	55	$200,000-$219,999	56	$200,000-$219,999	47
$220,000-$239,999	42	$220,000-$239,999	41	$220,000-$239,999	42
$240,000-$259,999	39	$240,000-$259,999	43	$240,000-$259,999	40
$260,000-$279,999	23	$260,000-$279,999	24	$260,000-$279,999	17
$280,000-$299,999	8	$280,000-$299,999	12	$280,000-$299,999	12
$300,000-$319,999	10	$300,000-$319,999	11	$300,000-$319,999	15
$320,000-$339,999	12	$320,000-$339,999	14	$320,000-$339,999	7
$340,000-$359,999	13	$340,000-$359,999	9	$340,000-$359,999	13
$360,000-$419,999	8	$360,000-$379,999	8	$360,000-$419,999	13
$420,000-$839,999	10	$380,000-$399,999	8	$450,000-$499,999	7
		$400,000-$479,999	5	$500,000-$919,999	5
		$480,000-$839,999	5		
Total number of employees	**12,734**		**12,734**		**12,538**

Auckland Council

Number of employees	Including voluntary salary reductions 2020	Number of employees	Excluding voluntary salary reductions 2020	Number of employees	2019
<$60,000	2,761	<$60,000	2,760	<$60,000	3,030
$60,000-$79,999	1,526	$60,000-$79,999	1,526	$60,000-$79,999	1,585
$80,000-$99,999	1,508	$80,000-$99,999	1,482	$80,000-$99,999	1,423
$100,000-$119,999	774	$100,000-$119,999	758	$100,000-$119,999	722
$120,000-$139,999	416	$120,000-$139,999	418	$120,000-$139,999	388
$140,000-$159,999	168	$140,000-$159,999	183	$140,000-$159,999	180
$160,000-$179,999	103	$160,000-$179,999	115	$160,000-$179,999	95
$180,000-$199,999	49	$180,000-$199,999	56	$180,000-$199,999	61
$200,000-$219,999	27	$200,000-$219,999	29	$200,000-$219,999	21
$220,000-$239,999	15	$220,000-$239,999	12	$220,000-$239,999	15
$240,000-$259,999	12	$240,000-$259,999	13	$240,000-$259,999	19
$260,000-$279,999	12	$260,000-$279,999	12	$260,000-$299,999	12
$280,000-$319,999	5	$280,000-$299,999	7	$300,000-$339,999	8
$320,000-$339,999	6	$300,000-$339,999	10	$340,000-$359,999	5
$340,000-$479,999	5	$340,000-$439,999	6	$360,000-$699,999	6
Total number of employees	**7,387**		**7,387**		**7,570**

It should be noted that not every employee that took a voluntary salary reduction moved into lower salary band.

Section F: Other disclosures

F5 Related party transactions (continued)

Local government disclosures (continued)

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.

For the year ended 30 June 2020 Auckland Council made 23 severance payments to employees totalling $441,533 (30 June 2019: 21 payments totalling $474,444).

The values of each of these severance payments were $47,030; $42,158; $33,428; $31,475; $30,862; $29,314; $27,374; $23,846; $22,153; $21,925; $19,767; $19,347; $18,575; $15,376; $14,432; $11,214; $7,302; $6,500; $5,778; $5,186; $4,150; $3,341; $1,000.

In addition to the above, for the year ended 30 June 2020, other members of the group made 17 severance payments to employees totalling $309,380 (30 June 2019: 30 payments totalling $737,515).

The values of each of these severance payments were $66,973, $45,424, $34,501, $28,948, $21,500, $17,748, $17,593, $17,083, $11,863, $10,439, $8,352, $7,275, $6,943, $5,295, $3,942, $3,543, $1,958.

Mayor, councillor and local board members' remuneration

The Remuneration Authority determines the remuneration to be paid to the mayor, councillors and local board members. The Local Government Members (2019/20) (Local Authorities) Determination 2019 detailed the rates which apply from 1 July 2019 to 30 June 2020.

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

	Auckland Council	
$	2020	2019
Mayor		
Hon Phil Goff, CNZM, JP	291,954	279,351
Councillors		
Josephine Bartley	119,288	109,667
Dr Cathy Casey	119,288	109,667
Bill Cashmore	158,354	157,399
Ross Clow	46,305	129,932
Fa'anānā Efeso Collins	118,057	109,667
Pippa Coom	80,552	-
Linda Cooper, JP	126,674	112,947
Angela Dalton	75,898	-
Chris Darby	133,896	133,612
Alf Filipaina	126,674	109,667
Hon Christine Fletcher, QSO	114,980	109,667
Shane Henderson	80,206	-
Richard Hills	126,674	112,787
Penny Hulse	46,305	129,932
Mike Lee	39,083	109,667
Tracy Mulholland	76,237	-
Daniel Newman, JP	114,980	109,667
Greg Sayers	118,057	109,667
Desley Simpson, JP	126,674	109,667
Sharon Stewart, QSM	118,057	109,667
Sir John Walker, KNZM, CBE	39,083	109,667
Wayne Walker	114,980	109,667
John Watson	118,057	109,667
Paul Young	112,518	82,312
Total mayor and councillor remuneration	**2,742,831**	**2,563,943**

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:

$	2020	2019	$	2020	2019
Albert-Eden			**Aotea Great Barrier**		
Lee Corrick	50,631	44,104	Jeff Cleave	11,043	24,089
Graeme Easte	45,556	44,104	Luke Coles	33,828	32,715
Glenda Fryer	23,081	61,843	Susan Daly	27,646	24,089
Peter Haynes	31,928	90,786	Izzy Fordham	55,868	55,092
Rachel Langton	45,556	44,104	Shirley Johnson	9,121	24,089
Benjamin Lee	45,556	44,104	Patrick O'Shea	18,525	-
Julia Maskill	29,835	-	Valmaine Toki	18,525	-
Christina Robertson	29,835	-			
Jessica Rose	15,721	44,104			
Kendyl Smith	29,835	-			
Margi Watson	71,098	44,104			
Total	**418,632**	**417,253**	**Total**	**174,556**	**160,074**
Devonport- Takapuna			**Franklin**		
Aidan Bennett, QSM	54,508	-	Andrew Baker	136,282	120,032
Mike Cohen, QSM, JP	15,102	43,124	Malcolm Bell	44,500	42,402
Trish Deans	28,047	-	Alan Cole	44,500	42,402
Dr Grant Gillon	17,325	47,997	Brendon Crompton	-	40,770
Ruth Jackson	28,047	-	Sharlene Druyven	44,500	42,402
Jennifer McKenzie	15,102	43,124	Angela Fulljames	64,735	81,244
Jan O'Connor, QSM	43,149	43,124	Lance Gedge	29,250	-
Michael Sheehy	15,102	43,124	Amanda Hopkins	15,250	42,402
Toni van Tonder	28,047	-	Murray Kay	15,250	42,402
George Wood, CNZM	61,927	80,316	Amanda Kinzett	29,250	-
			Niko Kloeten	15,250	42,402
			Matthew Murphy	29,250	-
			Logan Soole	29,250	-
Total	**306,356**	**300,809**	**Total**	**497,267**	**496,458**
Henderson-Massey			**Hibiscus and Bays**		
Paula Bold-Wilson	16,367	44,620	Christina Bettany	15,568	43,795
Brenda Brady, JP	48,477	44,620	Gary Brown	57,845	-
Chris Carter	62,320	-	David Cooper	15,568	43,795
Peter Chan, JP	52,306	55,945	Andy Dunn	29,445	-
Warren Flaunty, QSM	16,367	44,620	Janet Fitzgerald, JP	48,193	52,519
Will Flavell	54,531	44,620	Gary Holmes	45,013	43,795
Matt Grey	48,477	44,620	Julia Parfitt, JP	60,680	88,105
Shane Henderson	33,655	93,985	Alexis Poppelbaum	29,445	-
Brooke Loader	32,110	-	Victoria Short	35,150	-
Vanessa Neeson, JP	48,477	44,620	Caitlin Watson	15,568	43,795
Ingrid Papau	32,110	-	Vicki Watson	15,568	43,795
			Mike Williamson	18,824	43,795
			Leanne Willis	29,445	-
Total	**445,197**	**417,650**	**Total**	**416,312**	**403,394**

Section F: Other disclosures

F5 Related party transactions (continued)

Local government disclosures (continued)

Local board members' remuneration (continued)

$	2020	2019
Howick		
Garry Boles	16,710	44,827
Katrina Bungard	52,665	58,513
Bo Burns	31,980	-
David Collings	66,447	98,421
Jim Donald, JP	16,710	44,827
Bruce Kendall	31,980	-
John Spiller	53,831	44,827
Mike Turinsky	48,690	44,827
Adele White	79,014	44,827
Bob Wichman	48,690	44,827
Peter Young, JP	48,690	44,827
Total	**495,407**	**470,723**
Māngere-Ōtāhuhu		
Tauanu'u Nanai Nick Bakulich	48,377	43,691
Carrol Elliot, JP	16,202	43,691
Makalita Kolo	48,377	43,691
Tafafuna'i Tasi Lauese, JP	16,202	43,691
Anae Dr Neru Leavasa	32,175	-
Christine O'Brien	48,377	43,691
Lemauga Lydia Sosene	95,200	85,267
Togiatolu Walter Togiamua	57,577	50,877
Harry Fatu Toleafoa	32,175	-
Total	**394,662**	**354,599**
Maungakiekie-Tāmaki		
Don Allan	46,312	43,433
Debbie Burrows	55,038	50,421
Bernie Diver	15,762	43,433
Nerissa Henry	46,312	43,433
Chris Makoare	91,180	84,493
Peter McGlashan	30,550	-
Maria Meredith	46,312	43,433
Alan Verrall	17,328	43,433
Tony Woodcock	30,550	-
Total	**379,344**	**352,079**
Ōtara-Papatoetoe		
Apulu Reece Autagavaia	50,381	49,023
Dr Ashraf Choudhary, QSO, JP	54,168	43,897
Dr Ofa Dewes	30,265	-
Lotu Fuli	94,120	86,454
Mary Gush	16,195	43,897
Donna Lee	16,195	43,897
Swanie Nelson	31,980	-
Ross Robertson, QSO, JP	51,251	51,570
Dawn Trenberth	48,175	43,897
Total	**392,730**	**362,635**

$	2020	2019
Kaipātiki		
John Gillon	88,274	87,227
Paula Gillon	44,640	43,536
Danielle Grant, JP	53,394	52,003
Ann Hartley, JP	44,640	43,536
Melanie Kenrick	29,185	-
Kay McIntyre, QSM	15,455	43,536
Cindy Schmidt	29,185	-
Andrew Shaw	29,185	-
Anne-Elise Smithson	15,455	43,536
Adrian Tyler	44,640	43,536
Lindsay Waugh	15,455	43,536
Total	**409,508**	**400,446**
Manurewa		
Joseph Allan	78,647	43,691
Melissa Atama	38,021	-
Anne Candy	31,915	-
Stella Cattle	19,412	49,570
Sarah Colcord	16,139	43,691
Angela Cunningham-Marino	16,139	43,691
Angela Dalton	32,359	89,995
Tabetha Gorrie	31,915	-
Rangi McLean	54,279	46,458
Glenn Murphy	31,915	-
Ken Penney	48,054	43,691
Dave Pizzini	48,054	43,691
Total	**446,849**	**404,478**
Orākei		
Troy Churton	44,065	43,897
Carmel Claridge	18,357	51,749
Colin Davis, JP	44,065	43,897
Troy Elliott	28,665	-
Toni Millar, QSM, JP	15,400	43,897
Scott Milne, JP	55,804	-
Kit Parkinson	30,601	86,764
Sarah Powrie	34,080	-
Ros Rundle	15,400	43,897
Margaret Voyce	28,665	-
David Wong, JP	44,065	43,897
Total	**359,167**	**357,998**
Papakura		
Felicity Auva'a	47,380	45,979
Brent Catchpole	86,965	76,860
Hon George Hawkins, QSO	45,245	42,505
Bill McEntee	15,410	42,505
Keven Mealamu	29,835	-
Jan Robinson	35,426	-
Sue Smurthwaite	29,835	-
Michael Turner	15,410	42,505
Katrina Winn	15,410	42,505
Total	**320,916**	**292,859**

Section F: Other disclosures

F5 Related party transactions (continued)

Local government disclosures (continued)

Local board members' remuneration (continued)

$	2020	2019
Puketāpapa		
Anne-Marie Coury	15,328	43,125
Harry Doig	86,145	80,109
Julie Fairey	52,191	47,878
David Holm	15,328	43,125
Shail Kaushal	15,328	43,125
Ella Kumar, JP	44,318	43,125
Fiona Lai	28,990	-
Bobby Shen	28,990	-
Jon Turner	28,990	-
Total	**315,608**	**300,487**
Upper Harbour		
Anna Atkinson	27,845	-
Uzra Casuri Balouch, JP	42,839	42,815
Nicholas Mayne	42,839	42,815
John McLean	14,994	42,815
Margaret Miles, QSM,JP	136,644	127,079
Brian Neeson, JP	42,839	42,815
Lisa Whyte	50,233	51,930
Total	**358,233**	**350,269**
Waitākere Ranges		
Mark Allen	28,145	-
Michelle Clayton	28,145	-
Sandra Coney, QSO	43,190	42,712
Neil Henderson	15,045	42,712
Greg Presland	83,781	78,046
Steve Tollestrup	15,045	42,712
Saffron Toms	50,766	46,671
Ken Turner	43,190	42,712
Total	**307,307**	**295,565**
Whau		
Fasitua Amosa	29,575	-
Derek Battersby,QSM, JP	15,578	43,691
Catherine Farmer	45,153	43,691
Duncan Macdonald, JP	3,054	43,691
Te'eva Matafai	45,153	43,691
Tracy Mulholland	30,407	85,267
Warren Piper	29,575	-
Jessica Rose	29,575	-
Kay Thomas	58,100	-
David Whitley	15,578	43,691
Susan Zhu	53,728	50,877
Total	**355,476**	**354,599**

$	2020	2019
Rodney		
Brent Bailey	43,211	41,989
Tessa Berger	14,880	41,989
Cameron Brewer	14,936	41,989
Steve Garmer	28,275	-
Danielle Hancock	28,275	-
Tim Holdgate	28,275	-
Beth Houlbrooke	62,405	78,510
Louise Johnston	43,211	41,989
Vicki Kenny	28,275	-
Phelan Pirrie	72,163	53,632
Allison Roe, MBE	14,936	41,989
Colin Smith	43,211	41,989
Brenda Steele	14,936	41,989
Total	**436,989**	**426,065**
Waiheke		
Shirin Brown	10,361	25,740
Cath Handley	66,089	61,333
Kylee Matthews	22,360	-
John Meeuwsen	10,361	25,740
Robin Tucker	22,360	-
Bob Upchurch	36,906	25,740
Paul Walden	35,930	36,381
Total	**204,367**	**174,934**
Waitematā		
Alexandra Bonham	31,395	-
Shale Chambers	18,749	49,728
Adriana Avendario Christie	47,319	43,226
Pippa Coom	30,891	83,308
Graeme Gunthorp	31,395	-
Kerrin Leoni	37,418	-
Richard Northey, ONZM	77,600	43,226
Denise Roche	15,925	43,226
Julie Sandilands	31,395	-
Vernon Tava	15,925	43,226
Rob Thomas	15,925	43,226
Sarah Trotman, ONZM	31,395	-
Total	**385,332**	**349,166**

Section F: Other disclosures

F5 Related party transactions (continued)

Local government disclosures (continued)

Local board members' remuneration (continued)

The total local board remuneration as at 30 June 2020 is $7,820,215 (2019: $7,442,540).

During the year ended 30 June 2020, three incorrect payments were made to local board members due to administrative errors. Two underpayments have been paid since balance date and one overpayment is being recovered.

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

	Group		Auckland Council	
$million	**2020**	**2019**	**2020**	**2019**
Surplus/(deficit) after income tax	**35**	**175**	**(823)**	**(280)**
Add/(less) non-cash items				
Depreciation and amortisation	963	922	292	268
Vested assets	(494)	(486)	(158)	(119)
Net change in fair value of financial instruments	756	665	737	603
Net increase in fair value of investment property	55	(15)	58	(7)
Time value adjustments	9	20	8	19
Impairment of property, plant and equipment, receivables and other assets	86	9	36	3
Net (gain)/loss on disposal of property, plant and equipment and intangible assets	9	3	(9)	(13)
Gain on business combination	-	(4)	-	-
Gain on discontinuing equity accounting of Auckland International Airport Limited	(230)	-	(230)	-
Share of surplus/(deficit) in associates and jointly-controlled entities (net of dividends received)	47	(32)	52	(28)
Non-cash dividend from Panuku/related party	-	-	-	(295)
Other non-cash revenue	-	(5)	-	(93)
Add/(less) items classified as investing or financing activities	**32**	**(2)**	**8**	**6**
Add/(less) movements in working capital items	**102**	**(2)**	**53**	**(56)**
Net cash inflow/(outflow) from operating activities	**1,370**	**1,248**	**24**	**8**

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, 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 movement in the restricted reserve is disclosed in Note D6 Ratepayer Equity,

NZTA paid $148 million of revenue to the group during the year under RFT scheme (2019: $129 million). RFT revenue was applied towards capital expenditure on the following projects:

Projects	2020 $million	2019 $million	Progress
Bus priority improvements	3	3	**Double Decker's** - All works are complete on the Remuera Road route. Clearance of New North Road route has been put on hold due to lack of double decker buses. Bus companies are not purchasing additional diesel double decker vehicles until the proposed electrification plan for the double decker bus fleet is confirmed. **Bus Priority** - Procurement has begun for the Bus Priority Strategic Programme. **Sylvia Park** - A Strategic Review has been completed to validate the original rationale for the project following changes to Sylvia Park's long-term master plan, surrounding land use and bus network operations. The review recommends the project should progress to the next stage.
City centre bus infrastructure	1	7	**Downtown** - Construction began on the Lower Albert Street Bus Interchange and the main works are expected to be completed in September 2020. **City Centre** - Wellesley Street Bus improvement Project has been placed on hold due to funding shortfalls arising out of the impact of COVID-19. The works have been deferred and will be prioritised as part of the next 10-year Budget. Necessary scope changes are being made to make best use of the period of closure of the street for City Rail Link works, to ensure a functional network by mid-2021.
Improving airport access	8	2	**Puhinui Station Interchange** - A key milestone was achieved this year with the installation of the concourse beams. Shop drawings for the steel structure are progressing with a planned date for the first steel beams to be installed during August 2020. **Airport access improvements** - Construction is on target with a key milestone approaching with the installation of steel work. Escalators have arrived and are in storage awaiting future installation. The modelling for the roofing has been completed and the sub-contractor has confirmed that an infinity machine from Dubai is not required. This will help de-risk this critical path activity that is planned for October. Physical works to begin September 2020. Lambie Drive bus lanes targeted for December 2020. Puhinui Road West bus lanes are targeted for May 2021 to align with the Puhinui Station Interchange opening.
Eastern Busway	3	24	**Eastern Busway Stage one** - The project is advancing well and is on track for completion by June 2021. There is a strong focus on staying safe, addressing quality and closing out negotiations of advanced agreements made on properties. Most of the works are now above ground and there is a lot of focus to meet further traffic switches on the Panmure side. **Eastern Busway Stages two to four** - Investigation is in progress for Eastern Busway 2 (New Bus Station at Pakuranga Plaza, dedicated urban busway on Ti Rakau Drive to Mattison Road, Reeves Road Flyover and local road improvements) and Eastern Busway 4 (New bus interchange at Botany town centre serving the AMETI Eastern Busway and Airport to Botany link). Procurement of the preferred Alliance consortia is underway.

Section F: Other disclosures

F7 Regional fuel tax (continued)

Local government disclosures

Regional fuel tax (continued)

Projects	2020 $million	2019 $million	Progress
Downtown ferry terminal and redevelopment	23	11	**Ferry Basin Redevelopment** - The project is on track for delivery by April 2021. Two pontoons are fully installed with pontoons 3, 4, 5 and 6 including canopies at a commissioning stage. Canopies are being fabricated offsite.
Penlink	-	1	The Penlink project will be transferred to NZTA in 2020/2021.
Mill Road corridor	-	8	The Mill Road project will be transferred to NZTA in 2020/2021.
Road corridor improvements	4	4	**Seal extensions** - Stage 1 of the Monowai Road Seal Extension was completed in March 2019. Stage 2 is not being progressed at this stage. **Lincoln Road** - The affordable design solution for the Lincoln Road project has received internal approval. **Matakana Link Road** - The physical works contract has been awarded for the Warkworth Matakana Link. **Lake Road / Esmond Road** - A detailed business case is being developed for Lake Road corridor improvements. **Smales Road/ Allens Road intersection upgrade** - This project is scheduled for implementation in 2023/2024.
Network capacity and performance improvement	10	7	**AT Operations Centre (ATOC)** - There was an underspend in the current year as the project relates to the ATOC amalgamation which was delayed due to the COVID-19 lockdown. The programme was moved into future years. **Network performance** - The Hurstmere Road projects were for completion by the end of June 2020 but were delayed due to the COVID-19 lockdown, and will be carried over to 2020/2021.
Growth-related transport infrastructure	7	1	The Northwest Fred Taylor Drive land acquisition programme has been delayed and pushed into 2020/2021 and 2021/2022 due to budget constraints in the post-COVID-19 environment.
Other projects	3	1	A walking and cycling programme, park and ride programme and the future purchase of additional electric trains and stabling are scheduled for implementation later in the 10-year Budget 2018-2028 period. Walking and Cycling 10 Year programme - A detailed business case for the Henderson project is being prepared along with indicative business cases for City Centre and Central Isthmus projects. Manukau and Mangere East projects are at tender to indicative business case.
Total	**62**	**69**	

The RFT also provides funding towards the 2018-2028 accelerated road safety infrastructure programme. During the current year, $17 million was applied to capital and operating expenditure incurred on this programme (2019: $20 million). The current year delivery is summarised as follows:

- the Minor Safety programme from 2019/2020 was moved into future years following initial delays to the approval of the programme, and subsequent procurement delays as confirmation of the 2020/2021 budget was awaited.
- the Rural Road Safety programme has faced ongoing delays due to the discovery of issues associated with groundwork and retainer wall. There have been ongoing issues since this began in 2018.
- the Safer Communities and Safe Speeds programme was delayed due to the delay in the formalisation of changes to speed limits, brought about in the Speed Limits Bylaw 2019. Several safety improvement projects such as Manurewa, Te Atatū South, Mission Bay and Papakura are in the construction phase.
- the Urban Road Safety programme incurred significant spend on reactive work towards the end of the year. Construction has begun on the Glenfield (Bentley/Chartwell) project, and two of the eight Mass Action Pedestrian Improvements project packages were completed. Overall, there was an underspend for the year which was mainly influenced by construction delays arising from the COVID-19 lockdown.

Section G: Financial reporting and prudence benchmarks

Annual report disclosure statement for the year ended 30 June 2020

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 including Watercare Services Limited, Auckland Transport and Ports of Auckland Limited.

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

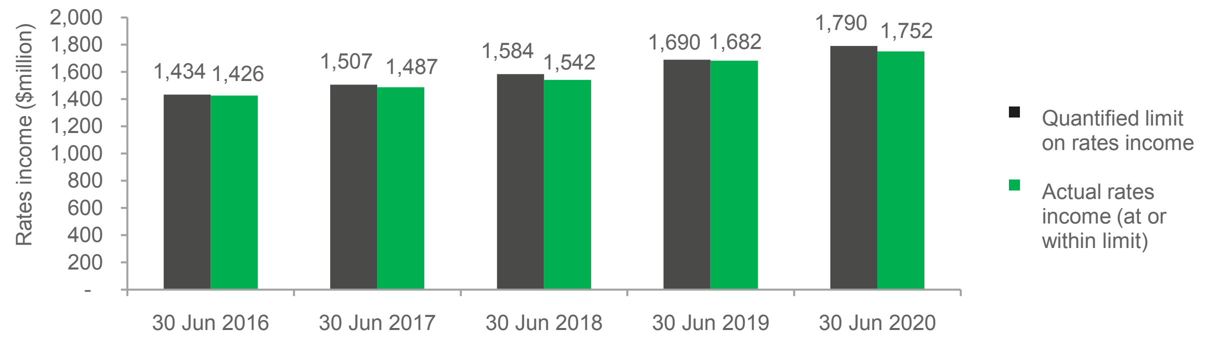
The group meets the rates affordability benchmark if:

- 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.

The quantified limit is the amount of income from rates, in million of dollars, represented by the black bars in the graph. This limit includes targeted rates that apply generally across Auckland and refers to the overall average increase across all ratepayers.



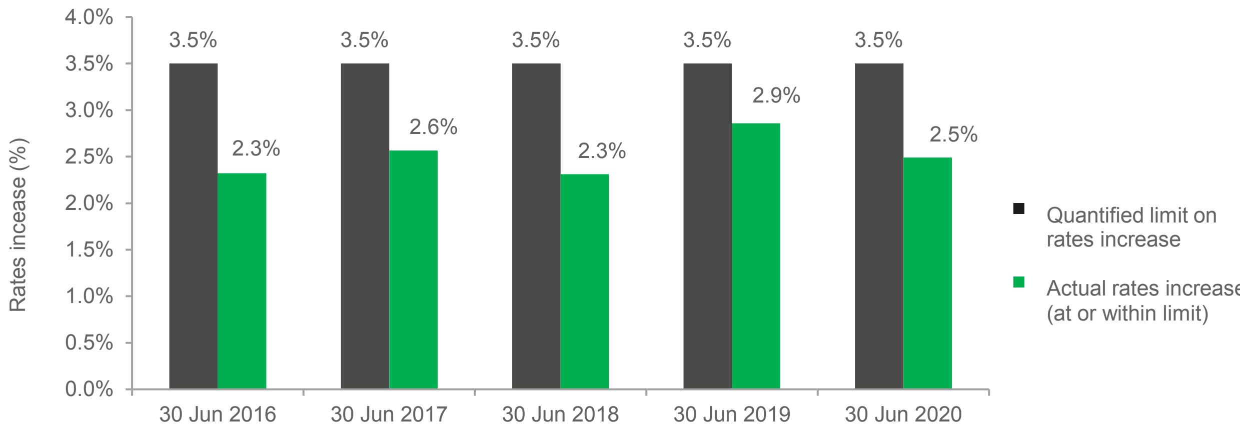
Rate (increases) affordability

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.

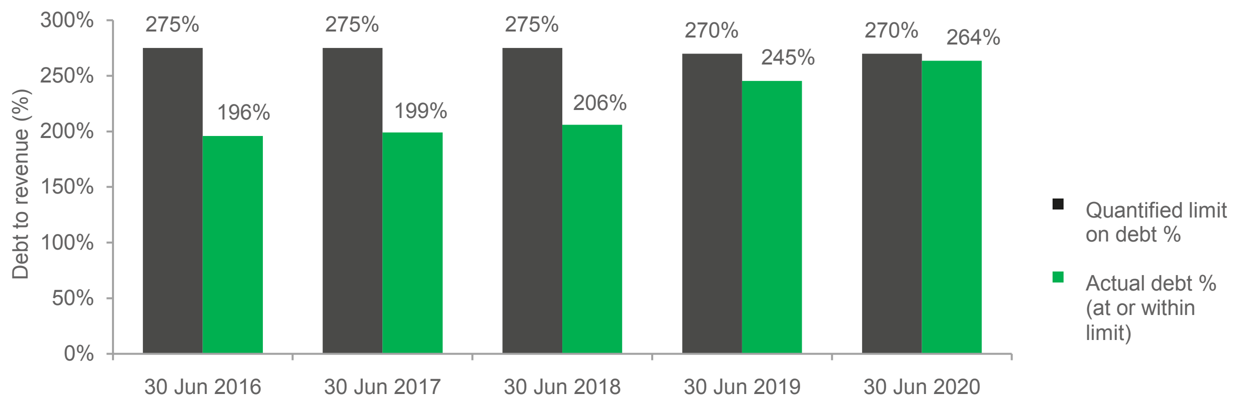
Debt as a percentage of revenue
The graph below compares the group's actual debt with the quantified limit on borrowing contained in the financial strategy included in the 10-year Budget 2018-2028 and the council's treasury management policy. The quantified limit for the current year, measured in terms 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 2016 to 2018 would have been 239%, 254% and 260%, respectively.

Due to the impact of the COVID-19 pandemic and the ensuing financial instability, revenue has reduced while borrowings have increased. Debt as a percentage of revenue for 30 June 2020 is 264% compared to 245% at 30 June 2019. The council is forecasting a temporary elevation of the debt to revenue ratio to 290% in 2020/2021, returning to 270% by 2021/2022.

Section G: Financial reporting and prudence benchmarks

Debt affordability benchmark (continued)

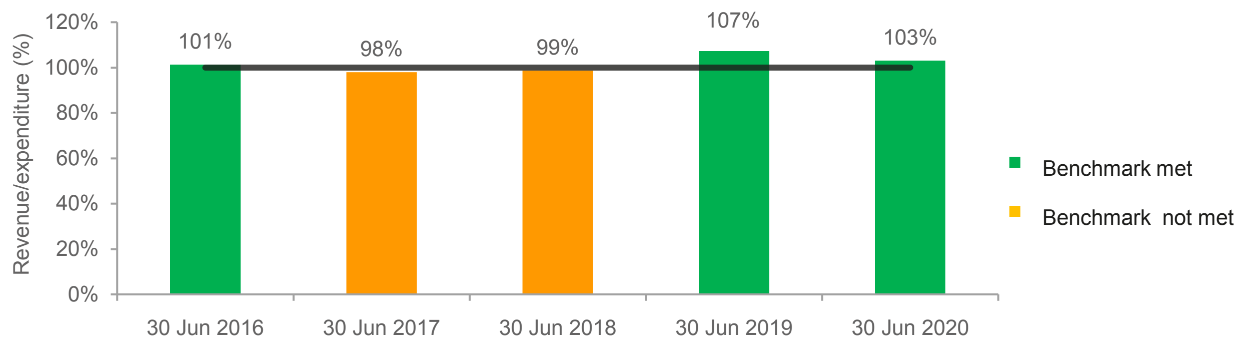


Balanced budget benchmark

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 2017 and 2018, mainly due to expenses incurred being greater than budget. Refer to Section A of this volume for the variance analysis on the "Results of Operations".

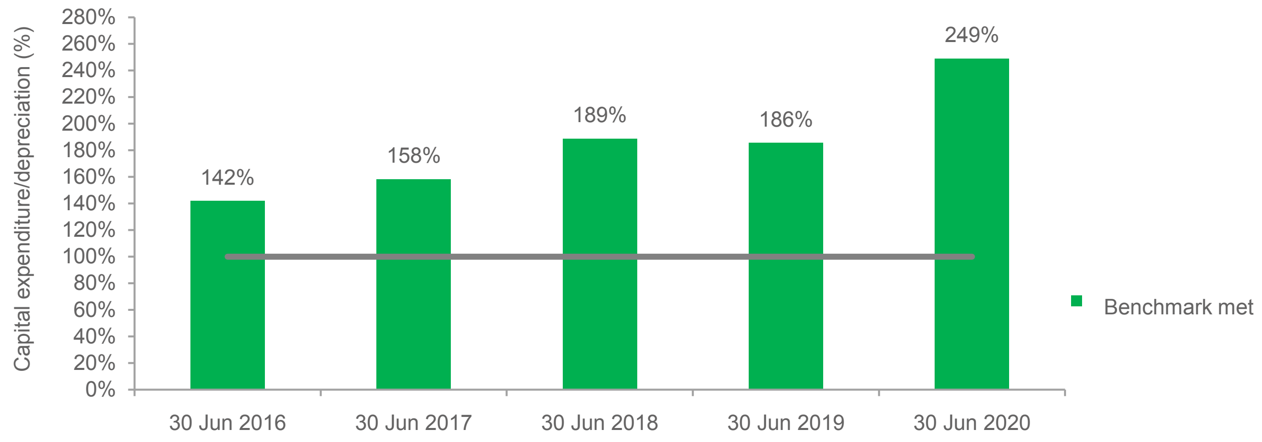


Essential services benchmark

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.

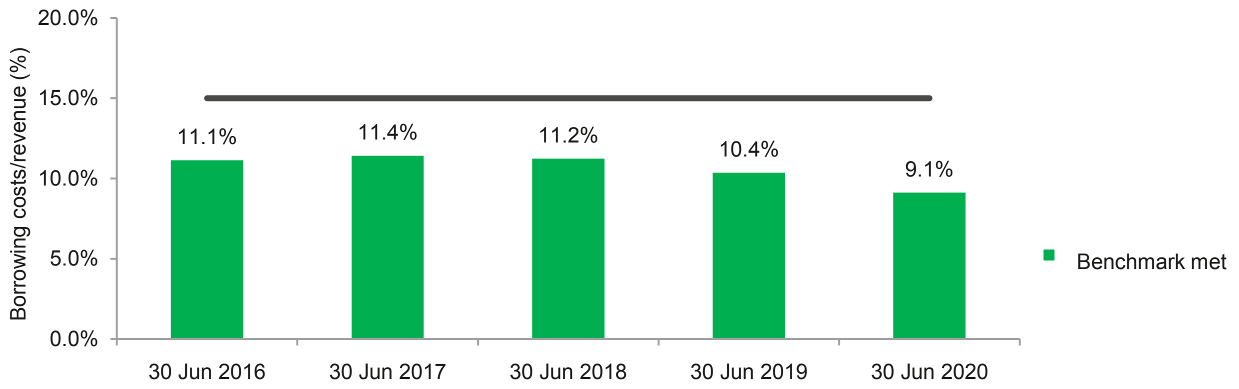
Section G: Financial reporting and prudence benchmarks

Essential services benchmark (continued)



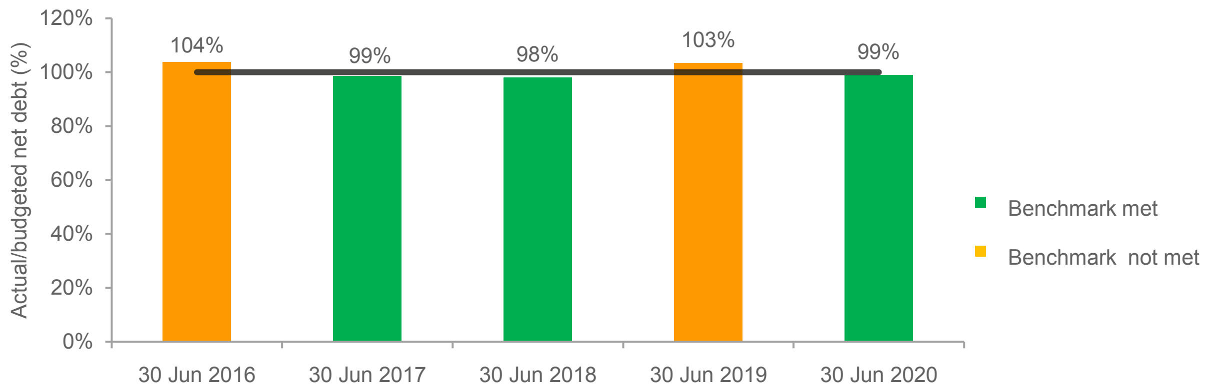
Debt servicing benchmark

The graph below displays the group's borrowing costs as a proportion of revenue (excluding 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

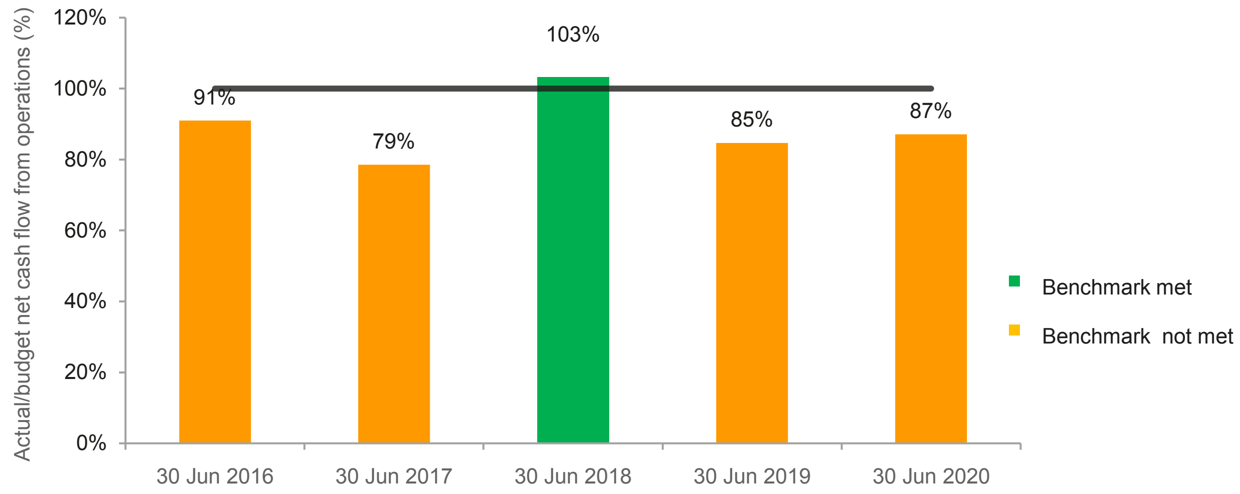
The graph below displays the group's actual net debt as a proportion of planned net debt. In this statement, net debt means financial liabilities less financial assets (excluding trade and other receivables). The group meets the debt control benchmark if its actual net debt equals or is less than its planned net debt. The 2016 and 2019 net debt was adversely impacted by derivatives which were higher than planned as a result of the unbudgeted volatility in interest rates during the financial year.



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 flows 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 flows were less than planned due to higher payments to suppliers and employees driven by the higher operating expenses. Operating cash flows for 2018 was higher than 2017 and slightly above plan. 2019 and 2020 cash flows were higher than their respective preceeding years but less than planned due to lower receipts from customers, rates, grants, other services and dividends and higher payments to suppliers and employees driven by the higher operating expenses.



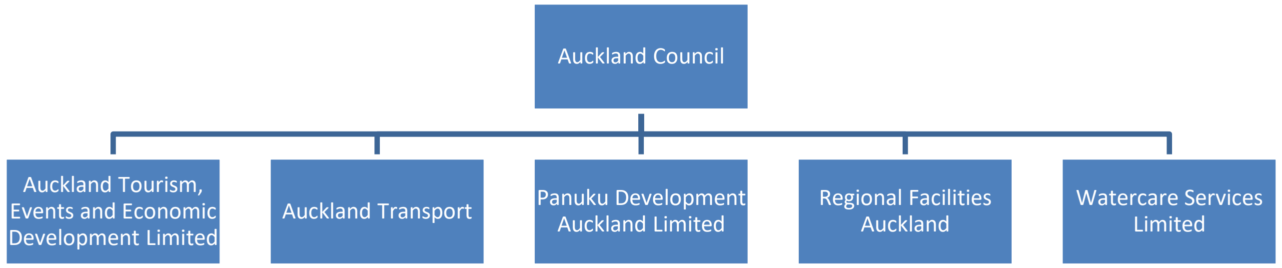
Section H: Council-controlled organisations

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 is either 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 several other CCOs, and other entities exempted from CCO status, which together represent less than 0.1% of the group's total assets. These include:

- Community Education Trust (COMET) Auckland
- Contemporary Art Foundation
- Lutra Limited
- 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
- if the council-controlled organisation is a council-controlled trading organisation, 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's (ATEED's) role is to support the 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 Auckland 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 Auckland Council 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 2019/2020.

Directors

- Mark Franklin (Chairperson)
- Professor Stuart McCutcheon
- Daniel Te Whenua Walker
- Hongyu (Carol) Cheng
- Ziena Jalil
- Evan Davies
- Michael Taitoko

Section H: Council-controlled organisations

Auckland Transport
An Auckland Council Organisation

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 $21 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, Auckland 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 10-year budget 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 2019/2020..

Directors

- Adrienne Young-Cooper (Chairperson)
- Mary-Jane Daly
- Dame Paula Rebstock
- Wayne Donnelly (Deputy Chairperson)
- Darren Linton
- Nicole Rosie (NZTA Representative)
- Kylie Clegg
- Dr Jim Mather

Section H: Council-controlled organisations

Panuku Development Auckland
An Auckland Council Organisation

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 Auckland Council's properties not immediately required for service delivery, and commercial properties owned by Auckland Transport and Auckland 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 2019/2020.

Directors

- Adrienne Young-Cooper (Chairperson)
- John Coop
- Paul Majurey (Deputy Chairperson)
- David Kennedy
- Victoria Carroll
- Richard Leggat

Section H: Council-controlled organisations

Regional Facilities Auckland
An Auckland Council Organisation

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 2019/2020.

Directors

- Andrew Barnes (Chairperson)
- Fabian Partigliani
- Jennah Wootten
- Andrew Collow
- Joanna Perry
- Candace Kinser
- Jennifer Rolfe

Section H: Council-controlled organisations

Watercare
An Auckland Council Organisation

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, 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 though 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 2019/2020.

Directors

- Margaret Devlin (Chairperson)
- Dr Nicola Crauford
- David Thomas
- Julia Hoare (Deputy Chairperson)
- Brendon Green
- Frances Valintine
- Dave Chambers
- Hinerangi Raumati-Tu'ua

Independent Auditor's Report

To the readers of Auckland Council's annual report for the year ended 30 June 2020

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 has complied with the requirements of Schedule 10 of the Act that apply to the annual report; and
- the completeness and accuracy of Auckland Council'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 on the audited information

In my opinion:

- the financial statements in Volume 3 on pages 15 to 116 present fairly, in all material respects, the financial position of the Auckland Council and Group as at 30 June 2020, and the financial performance and cash flows for the year ended on that date, in accordance with Public Benefit Entity Reporting Standards;
- the funding impact statement in Volume 3 on page 10, 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's annual plan;
- the statement of service performance in Volume 1 on pages 36 to 123:
  - presents fairly, in all material respects, the levels of service for each group of activities for the year ended 30 June 2020, including:
    - the levels of service achieved compared with the intended levels of service and whether any intended changes to levels of service were achieved; and
    - the reasons for any significant variation between the levels of service achieved and the intended levels of service; and
  - complies with generally accepted accounting practice in New Zealand;
- the statement about capital expenditure for each group of activities in Volume 1 on pages 36 to 123, presents fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in the Auckland Council's annual plan;
- the funding impact statement for each group of activities in Volume 1 on pages 36 to 123, 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; and
- the statements of service performance for local activities in Volume 2, section 2.1 to 2.21 on page 8 to 11 for each local board present fairly, in all material respects, the local activities for each local board area for the year ended 30 June 2020, 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 level of service achieved and the intended level of service.

Report on the disclosure requirements

I report that the Auckland Council has:

- 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 117 to 121, which represent a complete list of required disclosures and accurately reflects the information drawn from the Auckland Council and Group's audited information and, where applicable, the Auckland Council and Group's Long-term plan and annual plans.

Basis for my 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 this report.

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

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: International 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.

In addition to the audit, my staff and appointed auditors and their staff have carried out a range of assurance engagements, which are compatible with those independence requirements. These matters have not impaired my independence as auditor of the Group. Other than these engagements, and in exercising my functions and powers under the Public Audit Act 2001, I have no relationship with or interests in the Group.

Key audit matters

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 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. During the period, the Covid-19 pandemic significantly impacted the Auckland Council and Group. The effect of the Covid-19 pandemic has been disclosed by Council in the annual report and I make reference to those disclosures where they are relevant to our key audit matters.

These key audit matters were addressed in the context of my audit of the audited information as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

I have determined there are five key audit matters:

- valuation of property, plant and equipment;
- valuation of investment property;
- valuation of the weathertightness and associated building defect claims provision;
- valuation of derivatives; and
- reporting performance on the three waters, transport and housing in response to population growth.

Description of key audit matter	How we addressed this matter
Valuation of property plant and equipment	
The Auckland Council and Group owns a large portfolio of operational assets, restricted assets and infrastructure assets. As outlined in note B1, the Group had infrastructure assets of $33.639 billion, operational assets of $9.668 billion and restricted assets of $7.114 billion as at 30 June 2020. A number of the operational assets, restricted assets and infrastructure assets, 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 valuation of property, plant and equipment includes more uncertainty this year due to the impact of Covid-19. The accuracy of the valuation of material classes of assets depends on the completeness and accuracy of the underlying information, judgements of remaining useful lives to determine depreciation and the appropriateness of the assumptions used in the revaluations.	For property, plant and equipment carried at fair value, but not subject to a revaluation this financial year, we made enquiries of the Auckland Council and Group as to how it had been determined that an item or asset class carried at valuation was not materially different from its fair value. We assessed the reasonableness of the Council and Group's assertions. This included: • considering whether the assessment methods and assumptions applied to each asset class are appropriate; • assessing the application of these methodologies, including testing calculations and considering the sensitivity of changes to key assumptions; • where price indices were used, confirming that the indices are appropriate, and confirming movements to published indices; and

Description of key audit matter	How we addressed this matter
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 Auckland Council and 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. For all asset classes carried at fair value the Auckland Council and Group 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 2020 the following significant classes of assets were revalued: • roads and formation; • train stations; and • specialised sporting and cultural venues. These valuations were carried out by independent valuers. The impact of the Covid-19 pandemic has resulted in significant uncertainty about the fair value of land and non-specialised buildings, and whether costs incurred due to the level four lockdown should be capitalised. Auckland Council has included in Volume 3, Note B1 on page 40 specific information about the implications of the Covid-19 pandemic on the Auckland Council and Group and the uncertainties around the fair value of certain assets and how the additional costs were accounted for. I considered the valuation of property, plant and equipment a key audit matter because of the significance of the amounts involved and the judgements applied.	• where an analysis of the market movements was undertaken through the use of an independent valuer, we assessed the valuer's expertise for the work and their objectivity. We discussed the assessment of the market movements with the valuer and assessed these movements against other sources of market data. For those assets that have been revalued, we read the valuation reports and discussed the approach to the valuation with the valuer. We obtained representations that the valuation approach was in keeping with accepted professional valuation standards. We assessed the valuer's expertise for the work and their objectivity. This included considering whether they had other engagements or relationships with the Auckland Council and Group. We confirmed our understanding of the valuation methodology and key assumptions and evaluated their reasonableness. We did this based on our experience and knowledge of other specialised operational and infrastructure valuations in the public sector. We obtained an understanding of how the valuer determined the age and condition of the assets, and how this was used to determine the remaining useful life of the assets and the valuation for those assets valued on a depreciated replacement cost basis. We considered how the replacement costs of components have been determined. We confirmed the reasonableness of a sample of costs by reference to the Auckland Council and Group's relevant current capital works contracts. We obtained an understanding of the source data used for the valuation. We reviewed the data for errors or omissions. We assessed the overall valuation changes and sought explanations from the valuers for any significant or unusual changes in value. We evaluated whether the Auckland Council and Group have appropriately applied the requirements of the applicable financial reporting framework, including whether the disclosures in the financial statements were appropriate.

Description of key audit matter	How we addressed this matter
	We assessed how additional costs incurred during level four lockdown were accounted for. We also assessed whether the significant valuation uncertainties due to Covid-19 that were reported by the valuers were adequately disclosed. We draw attention to Volume 3, Note B1 on page 40 to the financial statements, which explains the impact of the Covid-19 pandemic on the Auckland Council and Group and the uncertainties in the fair value of certain assets. I am satisfied that the value of operational assets, restricted assets and infrastructure assets in the Auckland Council and Group's financial statements are reasonable and supportable.
Valuation of investment property	
Investment properties are valued annually by independent registered valuers. The value of the Auckland Council and Group's investment property is $603 million at 30 June 2020. The valuation of investment property includes more uncertainty this year due to the impact of Covid-19. The valuation of the Auckland Council and Group's investment properties involves subjectivity and judgement when determining the valuations for individual properties, including assessing assumptions and valuation methods and adjustments to reflect the impact of Covid-19. The independent registered valuers have reported their valuations "on the basis of material valuation uncertainty" because of the Covid-19 pandemic. The valuers can attach less weight to pre-pandemic market evidence when forming views of current value. Therefore, less certainty and a higher degree of caution, should be attached to the valuation. This represents a significant increase in the estimation uncertainty in the valuation of investment properties. Note B3 to the financial statements, in Volume 3 on page 61, provides information on the methods and assumptions used in the valuation of investment property, including information about the impact and uncertainties arising from the Covid-19 pandemic. I considered the valuation of investment properties a key audit matter because of the significance of the amounts involved, the increased uncertainties as a result of the Covid-19 pandemic and the judgements applied.	We read the valuation reports and met with the valuers to discuss their approach to the valuation. We assessed the valuers' expertise and their objectivity, including reading their terms of engagement and considering the existence of other engagements or relationships with the Auckland Council and Group. We obtained representations from the valuers that their valuations were in accordance with accepted professional valuation standards. We confirmed our understanding of the valuation methodology and key assumptions, including assumptions in relation to Covid-19 impacts. We assessed them for compliance with the requirements of the applicable financial reporting standard (PBE IPSAS 16 Investment Property) and evaluated their reasonableness based on our experience and knowledge of other valuations in the public sector. We assessed the sensitivity of the valuations to changes in assumptions. We engaged a valuation and real estate specialist to assist with the assessment of the methodologies and to critique and challenge the key assumptions used by the valuers, including the appropriateness of the assumptions made for Covid-19 impacts. We obtained an understanding of the market data sources used by the valuers and the reliability of this data. We confirmed a sample of lease information, such as current rental rates, back to the lease documents. We sample tested valuation calculations. We assessed the overall valuation changes and sought explanations from the valuers for any significant or unusual changes in value.

Description of key audit matter	How we addressed this matter
	We considered the adequacy of the disclosures made in Note B3 to the financial statements, in Volume 3 on page 61, particularly in relation to the key assumptions and significant uncertainties in value as a result of Covid-19. I am satisfied that the value of investment properties in the Auckland Council and Group's financial statements are reasonable and supportable and that the disclosures about valuation uncertainty are appropriate.
Valuation of the weathertightness and associated building defect claims provision	
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. As discussed in Note D5 to the financial statements, in Volume 3 on pages 79 to 82, the Auckland Council and Group recognised a provision of $275 million for the year ended 30 June 2020, an increase of $37 million since 30 June 2019. Multi-unit claims make up 88% of this provision. There are three different types of claims: • active claims ($188 million): those which have been lodged and are progressing through the resolution process; • reported claims ($28 million): those which have been lodged but are not yet progressing through the resolution process; and • unreported claims ($59 million): those which might be made but that have yet to be lodged with, or identified by the Auckland Council and Group. I considered the valuation of the weathertightness and associated building defect claims 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.	We read the actuary's valuation report and met with the actuary to understand: • the valuation methodology and any changes from last year; • the key inputs and assumptions and any changes from last year; and • the reasons for valuation changes from last year. 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. We assessed the valuation methodology and assumptions for compliance with the requirements of the applicable financial reporting standard, and for reasonableness. We did this based on our accumulated knowledge and experience of weathertightness issues for Auckland Council and other councils. We re-assessed the reasonableness of last year's estimates in light of the current year valuation, as well as claim activity and settlements during the year. We agreed active claims data to representations from the Auckland Council's external legal advisers and reconciled the legal advisers' loss reserve estimates to the actuary's provision calculation. 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).

Description of key audit matter	How we addressed this matter
	I am satisfied that the provision recognised in Note D5 to the financial statements, in Volume 3 on pages 79 to 82 of the Group's financial statements for weathertightness and associated building defect claims is reasonable and supportable. I am also satisfied with the disclosure of an unquantified contingent liability in Volume 3, Note F4 to the financial statements on page 104, for a possible further liability not currently recognised.
Valuation of derivatives	
The Auckland Council and 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 Auckland Council and Group's debt. The Auckland Council and Group has in place a Treasury Management Policy that sets the parameters within which the Auckland Council and Group must operate when entering into derivatives. The Auckland Council and 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. As discussed in Note C2 to the financial statements, in Volume 3 on pages 65 to 67, the Auckland Council and Group reported derivative assets with a fair value of $647 million, and derivative liabilities with a fair value of $2,720 million at 30 June 2020. For the year ended 30 June 2020, as discussed in Note A6 to the financial statements, in Volume 3 on pages 35 to 36, there was a net loss on derivatives of $665 million recognised by the Auckland Council and Group compared to a net loss of $719 million in the prior year. This is primarily the result of the Auckland Council and Group using derivatives to fix the interest rates paid on borrowings at rates higher than current market interest rates. 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.	We obtained an understanding of the Auckland Council and Group's Treasury Management Policy. We assessed whether derivative treasury controls operated effectively during the year. We assessed the Auckland Council and 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. 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: • we estimated the fair value of a sample of derivatives using our internal valuation model; • for more complex derivative valuations, we engaged external valuers to estimate the fair value of a sample of derivatives; • we assessed the valuers' expertise and objectivity, and we considered the appropriateness of using the external valuers' work as audit evidence; and • we compared our estimate of fair value to the Auckland Council and Group's fair value and assessed whether the Auckland Council and Group's fair value was within an acceptable valuation range. We also considered the interest rate risk disclosures in Note E1 to the financial statements, in Volume 3 on pages 88 to 89, and disclosures explaining the loss on derivatives in Note A6 to the financial statements, in Volume 3 on pages 35 to 36.

Description of key audit matter	How we addressed this matter
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.	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 impact on the fair value of interest rate swaps as a result of the significant drop in the interest rates during the financial year. I am satisfied that the derivative valuations, and supporting information disclosed about derivatives, in the Auckland Council and Group's financial statements are reasonable, supportable and appropriately disclosed.
Reporting performance on the three waters, transport and housing in response to population growth	
Auckland's population is continuing to grow. This requires the Auckland Council and Group to respond to a number of growth-related issues, including the continuity and security of water supply, and water quality, capacity of the roading network, and availability of an efficient and effective public transport system, and the availability of housing. As part of this, a number of strategic initiatives and key projects are underway or planned. **The three waters - water supply, wastewater and stormwater** The Council's 2018-28 Long-Term Plan included growth related water projects such as the new watermains in Hunua and North Harbour, and new wastewater and stormwater pipelines, such as the Central and Northern Interceptors. Amongst other things these projects are aimed at addressing water quality and supply issues. **Transport** The 2018-28 Long-Term Plan included a programme of capital works for completion over the 10 years covered by that plan. This programme of work will be delivered in conjunction with other agencies, including City Rail Link Limited (who is building the city rail link on behalf of the Crown and Auckland Council). How Auckland Council manages not only its own delivery but also its coordination with other agencies and the construction sector will impact on the Auckland Council and Group's ability to deliver key growth-related projects, including the city rail link, on time.	We identified the aspects of performance that we consider to be material to readers of the Council's annual report and focused our work on these aspects. This included material performance measures relevant to water supply, wastewater and stormwater, transport, and housing. Our work included: • testing the effectiveness of relevant internal controls; • confirming reported performance for material measures to underlying records on a sample basis; and • where appropriate, obtaining third-party confirmation of performance. We assessed whether the performance reported fairly reflected the Auckland Council and Group's performance in these important areas. In addition to these audit procedures on material performance measures, we carried out the following procedures: • obtained an understanding of the key growth-related issues facing the Auckland Council and Group, and the strategic initiatives and projects to address these issues as well as the progress being made to deliver them; and

Description of key audit matter	How we addressed this matter
Housing The Council has a key role in housing through: • establishing the rules for development under the Unitary Plan; • its role as a building consent authority responsible for issuing building consents and code of compliance certificates; and • its role in making resource management decisions, including giving effect to the national policy statements on urban development, and providing resource consents. Given the significance of the growth-related issues it is particularly important that Auckland Council is clear, accurate and informative in reporting performance against expectations in the annual report. In addition to clearly articulating the Council and Group's role the reported performance information should enable a reader to understand the: • key growth-related issues; • strategic initiatives and projects to address the growth-related issues; • progress being made on these strategic initiatives and projects (including timeframes and costs); • key measures being used to assess Auckland Council's performance in responding to growth-related issues; and • ongoing challenges that are yet to be addressed (if any). I considered this a key audit matter because of the complexity of these growth-related issues and the need for innovative solutions, and collaboration between the Council, its Council Controlled Organisations, key local stakeholders, and the Government.	• considered whether the reported performance information about water supply, wastewater and stormwater, transport and housing (including key growth projects) is sufficient to enable a reader of the annual report to have a good understanding of the progress being made by the Auckland Council and Group towards addressing the growth-related issues identified. This included assessing the information reported about the city rail link project for consistency with the audited financial statements and performance information of City Rail Link Limited (CRLL), and our knowledge obtained in the audit of both CRLL and the Auckland Council and Group. Where information on these activities was included in the annual report but outside the statement of service performance, we read 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: • relevant group reports, meeting minutes, and supporting evidence; • discussions with governing bodies and management of the Auckland Council and Group; and • discussions with other public sector agencies involved in Auckland matters. I am satisfied that the performance information reported about the three waters, transport and housing is reasonable, and reflects both the role and performance of the Auckland Council and Group in the areas of the three waters, transport and housing.

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 3 to 35 and 124 to 135, Volume 2 sections 2.1 to 2.21 on pages 1 to 7 and 12 to 15, Volume 3 on pages 1 to 9, 11 to 14, 122 to 127, and 140 to 147 and Volume 4 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.

In connection with my audit of the audited information and my report on the disclosure requirements, 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 Reporting 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's annual plan.

I did not evaluate the security and controls over the electronic publication of the audited information.

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 the by Auckland Council and Group.

- I conclude on the appropriateness of the use of the going concern basis of accounting by the Council and, 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 Auckland Council and 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.

Greg Schollum
Deputy Auditor-General
Wellington, New Zealand
29 October 2020

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 2020, NZX has granted and published or the council has relied on a waiver from NZX Listing Rules 3.6.1(b)(ii) and 3.6.3 dated 23 January 2020. This waiver was granted from NZX Listing Rules 3.6.1(b)(ii) and 3.6.3 to the extent that these rules require the council to send to security holders a hard copy, or a notice that they can request a hard 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 hard copy at public locations designated by the council.

Spread of public bondholders at 1 September 2020

Holding range	Number of bondholders	Value held ($)	Percentage of bonds held
5,000 to 9,999	60	369,000	0.04
10,000 to 49,999	545	12,375,000	1.26
50,000 to 99,999	157	10,289,000	1.05
100,000 to 499,999	165	30,501,000	3.11
500,000 to 999,999	30	19,345,000	1.98
1,000,000 +	109	907,121,000	92.56
Total	**1,066**	**980,000,000**	**100.00**

The top 20 listed bondholders of the group as at 1 September 2020 were:

Entity	Holding ($)
BNP Paribas Nominees (NZ) Limited 1	133,087,000
Westpac New Zealand Limited	103,500,000
BNP Paribas Nominees (NZ) Limited 2	86,579,000
Citibank Nominees (NZ) Limited	82,390,000
HSBC Nominees (NZ) Limited	48,746,000
HSBC Nominees (NZ) Limited O/A Euroclear Bank	41,656,000
ASB Bank Limited - Treasury Division	41,500,000
JPMorgan Chase Bank N.A. NZ Branch-Segregated Clients Account	38,239,000
ANZ Fixed Interest Fund	28,318,000
ANZ Custodial Services New Zealand Limited	24,540,000
HSBC Nominees Account NZ Superannuation Fund Nominees Limited	24,000,000
Commonwealth Bank of Australia	23,581,000
Industrial and Commercial Bank of China (NZ) Limited	20,000,000
National Nominees Limited - NZCSD	19,406,000
ANZ Wholesale Cash Fund	18,840,000
Hong Kong and Shanghai Banking Corporation Limited	16,360,000
FNZ Custodians Limited	13,918,000
Investment Custodial Services Limited	12,810,000
TSB Bank Limited	12,365,000
NZPT Custodians (Grosvenor) Limited	9,503,000
	799,338,000

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 2019) 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 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.

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 original cost or revaluations of qualifying assets.

Main differences between IFRS and PBE Accounting Standards

PBE Accounting Standards with comparable IFRS equivalent (continued)

Borrowing costs (continued)

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 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.

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.

Impact
Assets with future economic benefits that 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.

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.

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.

Main differences between IFRS and PBE Accounting Standards

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

Revenue from non-exchange transactions (continued)

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.

Under PBE IPSAS 23, the timing of recognising the group's rates revenue is at the date of issuing the rating notices for the annual general rate charge resulting in the entire rates revenue being recognised in the interim financial statements of the group. This is likely to be an earlier recognition than if this revenue was accounted for under IFRS.

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.

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).

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) (continued)

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.

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 IFRS.

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.

Lease accounting

PBE
Under PBE IPSAS 13 *Leases*, the group's current accounting policy is to make a distinction between finance leases and operating leases.

Finance leases are recognised on the statement of financial position.

Operating leases are not recognised on the statement of financial position, instead, payments are recognised in the statement of financial performance on a straight-line basis or another systematic basis that is more representative of the pattern of the lessee's benefit.

IFRS
IFRS 16 *Leases* requires the lessee to recognise almost all lease contracts on the statement of financial position; the only optional exemptions are for certain short-term leases and leases of low-value assets.

There is no significant difference in respect of the accounting treatment applicable to lessors, or for lessees in contracts classified as finance leases under PBE IPSAS 13.

Impact
Where the group is the lessee in contracts classified as operating leases under its current accounting policy, applying IFRS 16 would result in the group having to recognise a 'right-of-use' asset (that is, the asset that reflects the right to use the leased asset) and a corresponding lease liability (obligation to make lease payments) on its statement of financial position.

Further, applying IFRS 16 would result in the group having to recognise interest expense on the lease liability and depreciation on the 'right-of-use' asset. Due to this, for lease contracts currently classified as operating leases, the total amount of expenses at the beginning of the lease period would be higher than under the current accounting policy of the group.

There is no significant difference where the group is a lessor in the lease arrangement or a lessee in contracts classified as a finance lease under PBE IPSAS 13.

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 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 (CRLL). 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 Auckland Council to help fund new infrastructure required by growth, as set out in the Local Government Act 2002.

Glossary

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

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. Auckland 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 Auckland 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 Auckland Council provides.
Service concession arrangement	A binding arrangement between grantor and operator in which, • the operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and • the operator is compensated for its services over the period of the service concession arrangement.
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 Council. There are 13 in Auckland Council's area.
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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Auckland Council
Te Kaunihera o Tāmaki Makaurau