Te Rīpoata ā-Tau 2016/2017

O TE KAUNIHERA O TĀMAKI MAKAURAU

AUCKLAND COUNCIL

Annual Report 2016/2017

Pokanga 3: Ngā Pūrongo Pūtea
Volume 3: Financial statements

Auckland Council
Te Kaunihera o Tāmaki Makaurau

Westhaven Boardwalk

He mihi

Noho mai rā Tāmaki Makaurau,	Tāmaki Makaurau
moana waipiata,	who bestrides shimmering seas,
maunga kākāriki.	and verdant mountains.
Mai i ngā wai kaukau o ngā tūpuna,	From the bathing waters of our forebears,
ki ngā puke kawe i ngā reo o te tini,	and hills that echo with voices
i puta ai te kī mōu.	that acclaim.
Tū ana he maunga,	Your mountains stand lofty,
takoto ana he raorao	your valleys spread from them
heke ana he awaawa.	and your streams run freely.
Ko ō wahapū te ataahua,	Your harbours are majestic,
ō tāhuna te mahora,	your beaches widespread,
te taiao e whītiki nei i a koe he taonga tuku.	the environment that surrounds you is a legacy.
Tiakina kia meinga tonu ai koe	Take care of it so that you will always be known
ko 'Te Kāinga Noho Āhuru o te Ao'.	as 'The World's Most Liveable City'.
Tāmaki Makaurau tirohia te pae tawhiti	Tāmaki Makaurau looking to the future,
he whakairinga tūmanako	repository of our hopes
mō ngā uri whakaheke ō āpōpō,	for generations to come,
te toka herenga mō te hunga ka takahi ake	anchor stone for those who venture
mā ō tomokanga,	through your gateway,
te piriti e whakawhiti ai	and the bridge that connects
tō iwi ki ngā huarahi o te ora.	your citizens to life.
Tāmaki Makaurau e toro whakamua,	Tāmaki Makaurau moving on,
hikina te mānuka.	accepting all challenges.
Tērā te rangi me te whenua te tūtaki.	Where even heaven and earth might meet.
Maranga me te rā, he mahi māu me tīmata,	Rise with the sun as there is work to be done
ka nunumi ana ki te pō,	and when evening comes,
whakatārewahia ō moemoeā ki ngā whetū.	your dreams to glide among the stars.
Ko te oranga mutunga mōu	Perpetual health and growth
kei tua i te taumata moana.	is beyond the horizon of cresting waves.
Tūwherahia ō ringa, kūmea mai ki tō uma.	Open your arms and pull them to your embrace.
Tāmaki Makaurau	Tāmaki Makaurau, you are a city
he tāone ūmanga kurupounamu ;	where valued business and enterprise thrives;
tukua tō rongo kia rere i te ao.	let your good name traverse the world.

Kupu whakataki
Welcome

Auckland Council's Annual Report 2016/2017

Auckland Council's role is to make the region we love even better. We are here to deliver the services and infrastructure required for Auckland to grow into a more prosperous city, one that gives a voice to our communities and is a great place to live, visit and invest.

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

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

The Annual Report 2016/2017 covers the period 1 July 2016 to 30 June 2017, and reports against the Long-term Plan 2015-2025 and the Annual Plan 2016/2017.

Annual Report 2016/2017

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

Volume 1: Overview and service performance

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

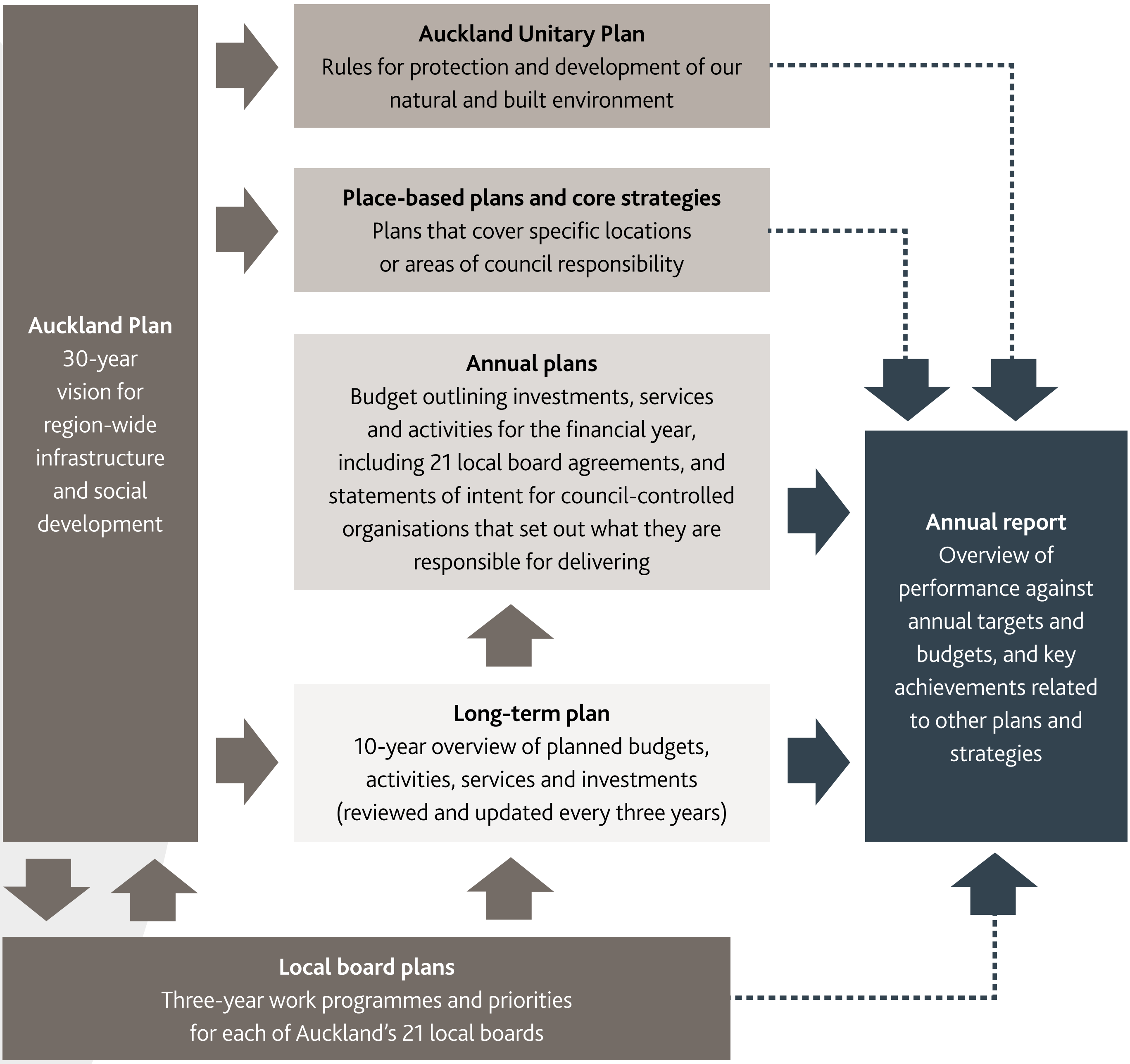
Volume 2: Local boards

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

Volume 3: Financial statements

Volume 3 contains our financial statements.

How the annual report fits into our planning and reporting framework



Rārangi kōrero
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Cover: Outdoor cinema at Silo Park, Central Auckland, by Todd Eyre

Takapuna playground

About this volume

This volume of the annual report contains our financial statements of the Auckland Council and the Group for the year ended 30 June 2017. The Group includes Auckland Council (the council) and its council-controlled organisations (CCOs).

The Annual Report 2016/2017 received an unmodified audit opinion and was adopted by Auckland Council on 28 September 2017.

The references to documents and information on Auckland Council and other 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 Annual Report 2016/2017.

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

A. Results of the year
B. Long-term assets
C. Borrowings and financial instruments
D. Working capital and equity
E. Financial risk management
F. Other disclosures
G. Financial reporting and prudence benchmarks
H. Council-controlled organisations

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

Additional signposting has been used throughout the annual report to provide readers with a clearer understanding of key information in the financial report.

In addition to signposting, accounting policies are denoted by the box surrounding them and significant judgement and estimates are denoted by green highlights. The following signposts have been used throughout this volume of the annual report:

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

Message from the Group Chief Financial Officer

Auckland Council's focus is to operate in a financially sound and prudent manner, providing value for money for ratepayers and investors, and addressing the challenges facing our region.

This year we funded our core services with total revenue of $4,129 million, which was above plan by $160 million. While rates is a major component, more than half of the total revenue came from other sources; it is the latter, primarily vested assets, that account for the favourable variance this year. We continuously seek alternative revenue sources to ensure we are able to deliver the services Aucklanders have told us they want, while reducing our reliance on rates.

Total operating expenditure exceeded budget by $122 million, principally due to adjustments to provisioning for weathertightness, closed landfills, loan guarantees and holiday pay entitlements, as well as unbudgeted redundancies.

As a successful and increasingly global city, Auckland's population is growing rapidly. This continuously adds to the demands on our transport, three waters, waste and community infrastructure. We need to balance the delivery of core services with new investment in infrastructure to meet the needs of the growing population.

Auckland Council Group holds long-term assets of $43.4 billion, including operational and infrastructure assets. Robust asset management ensures that assets are maintained and service levels remain high and are fit for purpose.

When investing in infrastructure, we borrow funds so repayment can be spread across the generations that benefit from these assets. At year-end our total debt (after cash on hand) was $7.9 billion, which is $467 million below the Annual Plan forecast.

We prudently manage our debt levels across a diversified range of sources to maintain one of the strongest credit ratings in New Zealand. As with prior years, we continue to maintain our credit ratings of AA (stable) from Standard and Poor's and Aa2 from Moody's Investor Services.

We are focused on providing value for money by renegotiating contracts with suppliers, maintaining a strong financial control environment and exercising sound judgement around valuing our assets. We carefully plan for growth to ensure future Aucklanders have the necessary resources available to them.

We have finished this financial year with an operating surplus before gains and losses of $340 million. Moving forward, we need to keep rates increases low and manage cost pressures. As the Group Chief Financial Officer I feel a strong obligation to ensure that the group acts prudently and with fiscal responsibility. We are stewards of substantial assets and revenue held on behalf of our communities, and we have a significant impact on the daily lives of our citizens, both now and into the future.

Sue Tindal
Group Chief Financial Officer

Statement of compliance and responsibility

Compliance

The council and management of Auckland Council confirm that all the statutory requirements in relation to this annual report, as outlined in the Local Government Act 2002, have been met.

Responsibility

The council and management of Auckland Council accept responsibility for the preparation and completion of the financial statements and the related judgements. The council and management adopted the financial statements as presented here on 28 September 2017.

The council and management of Auckland Council and the Group accept responsibility for establishing and maintaining systems of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and performance reporting.

In the opinion of Auckland Council the annual report for the year ended 30 June 2017 presents fairly the financial performance, financial position and service performance of Auckland Council Group and Auckland Council.

Phil Goff

Hon Phil Goff
Mayor of Auckland
28 September 2017

Stephen Town
Chief Executive
28 September 2017

Statement of comprehensive revenue and expenditure

For the year ended 30 June 2017

		Group			Council		
$million	**Note**	**Actual 2017**	**Budget 2017**	**Actual 2016**	**Actual 2017**	**Budget 2017**	**Actual 2016**
Revenue							
Rates		1,641	1,637	1,564	1,651	1,649	1,574
Fees and user charges		1,193	1,228	1,083	252	242	243
Grants and subsidies		459	500	404	16	37	22
Development and financial contributions		164	163	131	164	163	131
Other revenue		281	240	260	166	182	179
Vested assets		374	196	247	106	74	64
Finance revenue		17	5	16	91	95	100
Total revenue excluding other gains	A1	**4,129**	**3,969**	**3,705**	**2,446**	**2,442**	**2,313**
Expenditure							
Employee benefits	A3	853	811	803	508	481	484
Depreciation and amortisation	A4	874	886	828	256	256	237
Grants, contributions and sponsorship	A2	127	125	126	1,057	1,057	909
Other operating expenses	A2	1,464	1,380	1,281	570	480	516
Finance costs	A5	471	465	417	413	415	360
Total expenditure excluding other losses		**3,789**	**3,667**	**3,455**	**2,804**	**2,689**	**2,506**
Operating surplus/(deficit) before gains and losses		**340**	**302**	**250**	**(358)**	**(247)**	**(193)**
Net other gains/(losses)	A6	281	-	(552)	161	-	(443)
Share of surplus in associates and joint ventures		75	55	63	4	2	-
Surplus/(deficit) before income tax		**696**	**357**	**(239)**	**(193)**	**(245)**	**(636)**
Income tax (benefit)/expense	A7	56	27	(8)	-	-	-
Surplus/(deficit) after income tax		**640**	**330**	**(231)**	**(193)**	**(245)**	**(636)**
Other comprehensive revenue/ (expenditure)							
Net gain on revaluation of property, plant and equipment		1,468	1,018	1,626	-	-	1,156
Tax on revaluation of property, plant and equipment		-	(91)	(4)	-	-	-
Movement in cashflow hedge reserve		3	-	(9)	-	-	-
Tax on movement in cash flow hedge reserve		-	-	2	-	-	-
Share of associates and joint ventures' reserves		2	-	171	-	-	-
Net unrealised gain/(loss) on revaluation of financial assets classified as available-for-sale		11	-	2	-	-	-
Total other comprehensive revenue		**1,484**	**927**	**1,788**	**-**	**-**	**1,156**
Total comprehensive revenue/ (expenditure)		**2,124**	**1,257**	**1,557**	**(193)**	**(245)**	**520**

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.

Statement of financial position
As at 30 June 2017

$million	Note	Group Actual 2017	Group Budget 2017	Group Actual 2016	Council Actual 2017	Council Budget 2017	Council Actual 2016
Assets							
Current assets							
Cash and cash equivalents	D1	337	330	137	279	282	103
Receivables and prepayments	D2	345	262	275	279	213	181
Derivative financial instruments	C2	-	2	-	-	1	-
Other financial assets	C3	276	265	389	361	288	473
Inventories		35	17	28	11	5	8
Income tax receivable		-	-	1	-	-	-
Non-current assets held-for-sale	F1	332	53	43	40	52	32
Total current assets		**1,325**	**929**	**873**	**970**	**841**	**797**
Non-current assets							
Receivables and prepayments	D2	9	26	24	4	16	16
Derivative financial instruments	C2	170	200	263	161	198	255
Other financial assets	C3	141	139	128	1,814	1,912	1,653
Property, plant and equipment	B1	43,361	42,439	41,156	13,659	13,059	13,410
Intangible assets	B2	511	521	478	297	283	287
Investment property	B3	735	560	681	162	102	121
Investment in subsidiaries*	F3	-	-	-	21,068	21,178	21,080
Investment in associates and joint ventures	F3	1,096	900	1,074	16	18	14
Other non-current assets		11	1	2	3	1	2
Total non-current assets		**46,034**	**44,786**	**43,806**	**37,184**	**36,767**	**36,838**
Total assets		**47,359**	**45,715**	**44,679**	**38,154**	**37,608**	**37,635**
Liabilities							
Current liabilities							
Bank overdraft	D1	6	-	9	-	-	-
Payables and accruals	D3	688	753	607	673	679	540
Employee entitlements	D4	95	87	90	52	51	53
Borrowings	C1	1,125	1,613	1,447	975	1,408	1,169
Derivative financial instruments	C2	7	2	7	2	1	2
Income tax payable		-	2	-	-	-	-
Provisions	D5	82	61	101	77	55	99
Total current liabilities		**2,003**	**2,518**	**2,261**	**1,779**	**2,194**	**1,863**
Non-current liabilities							
Payables and accruals	D3	49	62	45	27	50	22
Employee entitlements	D4	5	5	5	2	2	2
Borrowings	C1	7,175	7,153	6,164	6,729	6,617	5,772
Derivative financial instruments	C2	865	485	1,207	653	327	901
Provisions	D5	374	243	290	367	236	285
Deferred tax liabilities	F2	1,112	1,192	1,055	-	-	-
Total non-current liabilities		**9,580**	**9,140**	**8,766**	**7,778**	**7,232**	**6,982**
Total liabilities		**11,583**	**11,658**	**11,027**	**9,557**	**9,426**	**8,845**
Net assets		**35,776**	**34,057**	**33,652**	**28,597**	**28,182**	**28,790**
Equity							
Contributed equity	D6	26,728	26,728	26,728	26,569	26,569	26,569
Accumulated funds	D6	951	1,075	290	(824)	(476)	(633)
Reserves	D6	8,097	6,254	6,634	2,852	2,089	2,854
Total equity		**35,776**	**34,057**	**33,652**	**28,597**	**28,182**	**28,790**

*Total investments in council-controlled organisations (CCOs) and entities listed in Local Government Act 2002 section 6(4) of the council for 2017 is $21 billion (2016: $21 billion).

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

Statement of changes in equity
For the year ended 30 June 2017

Group

$million	Note	Contributed equity	Accumulated funds	Reserves	Total equity	Budget*
Balance as at 1 July 2015		**26,728**	**517**	**4,834**	**32,079**	**31,983**
Deficit after income tax		-	(231)	-	(231)	226
Other comprehensive revenue		-	-	1,788	1,788	5
Total comprehensive (expenditure)/revenue		**-**	**(231)**	**1,788**	**1,557**	**231**
Found assets		-	16	-	16	-
Transfers to/(from) reserves	D6	-	(12)	12	-	-
Balance as at 30 June 2016	D6	**26,728**	**290**	**6,634**	**33,652**	**32,214**
Balance as at 1 July 2016		**26,728**	**290**	**6,634**	**33,652**	**32,800**
Surplus after income tax		-	640	-	640	330
Other comprehensive revenue		-	-	1,484	1,484	927
Total comprehensive revenue		**-**	**640**	**1,484**	**2,124**	**1,257**
Transfers (from)/to reserves	D6	-	21	(21)	-	-
Balance as at 30 June 2017	D6	**26,728**	**951**	**8,097**	**35,776**	**34,057**

Council

$million	Note	Contributed equity	Accumulated funds	Reserves	Total equity	Budget*
Balance as at 1 July 2015		**26,569**	**20**	**1,681**	**28,270**	**27,924**
Deficit after income tax		-	(636)	-	(636)	(205)
Other comprehensive revenue		-	-	1,156	1,156	-
Total comprehensive (expenditure)/revenue		**-**	**(636)**	**1,156**	**520**	**(205)**
Transfers (from)/to reserves	D6	-	(17)	17	-	-
Balance as at 30 June 2016	D6	**26,569**	**(633)**	**2,854**	**28,790**	**27,719**
Balance as at 1 July 2016		**26,569**	**(633)**	**2,854**	**28,790**	**28,427**
Deficit after income tax		-	(193)	-	(193)	(245)
Total comprehensive expenditure		**-**	**(193)**	**-**	**(193)**	**(245)**
Transfers to/(from) reserves	D6	-	2	(2)	-	-
Balance as at 30 June 2017	D6	**26,569**	**(824)**	**2,852**	**28,597**	**28,182**

*The opening balances as at 1 July 2015 were updated in the Annual Budget 2016/2017 based on the most up-to-date forecast information.

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

Statement of cash flows
For the year ended 30 June 2017

		Group			Council		
$million	**Note**	**Actual 2017**	**Budget 2017**	**Actual 2016**	**Actual 2017**	**Budget 2017**	**Actual 2016**
Cash flows from operating activities							
Receipts from customers, rates, grants and other services		3,692	3,732	3,453	2,170	2,128	2,081
Interest received		14	5	13	12	95	12
Dividends received		57	54	49	90	93	72
Payments to suppliers and employees		(2,528)	(2,296)	(2,324)	(2,113)	(2,065)	(1,874)
Income tax refund/(paid)		1	(9)	-	-	-	-
Interest paid		(422)	(455)	(420)	(365)	(405)	(366)
Net cash inflow/(outflow) from operating activities	F6	**814**	**1,031**	**771**	**(206)**	**(154)**	**(75)**
Cash flows from investing activities							
Repayment of loans to related parties		-	-	-	137	-	24
Advances of loans to related parties		-	-	-	(288)	(262)	(232)
Sale of property, plant and equipment, investment property and intangible assets		107	87	22	57	85	21
Purchase of property, plant and equipment, investment property and intangible assets		(1,542)	(1,945)	(1,340)	(434)	(592)	(377)
Acquisition of other financial assets		(190)	(5)	(76)	(208)	(5)	(64)
Proceeds from sale of other financial assets		308	100	59	316	100	62
Advances to external parties		(14)	(9)	(3)	(2)	(9)	(3)
Proceeds from community loan repayments		6	-	-	6	-	-
Net cash outflow from investing activities		**(1,325)**	**(1,772)**	**(1,338)**	**(416)**	**(683)**	**(569)**
Cash flows from financing activities							
Proceeds from borrowings		3,919	2,222	1,994	2,692	2,096	958
Repayment of borrowings		(3,205)	(1,481)	(1,635)	(1,894)	(1,259)	(493)
Repayment of finance lease principal		-	-	(1)	-	-	-
Net cash inflow from financing activities		**714**	**741**	**358**	**798**	**837**	**465**
Net increase/(decrease) in cash and cash equivalents		**203**	**-**	**(209)**	**176**	**-**	**(179)**
Opening cash and cash equivalents		128	330	337	103	282	282
Closing cash and cash equivalents	D1	**331**	**330**	**128**	**279**	**282**	**103**

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

Basis of reporting

This section contains the significant accounting policies of the Group and the 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 (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 CCOs, associates and joint ventures. A summary of substantive CCOs[1] is provided on the following 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 financial instruments which have been measured at fair value (Note C2), certain classes of property, plant and equipment (Note B1) and investment property (Note B3) which have been subsequently measured at fair value;
- on a going concern basis and the accounting policies have been applied consistently throughout the period; and,
- in New Zealand dollars (NZD) and are rounded to the nearest million dollars, unless otherwise stated.

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

Significant judgements and estimates

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

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

Budget figures

The budget figures presented in the Annual Report of the Group and the council are those included in the Annual Budget 2016/2017 (Annual Plan) adopted by the council on 30 June 2016 and are consistent with the accounting policies used to prepare the financial statements.

Basis of consolidation

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

[1]Section 4(1) of the LGACA 2009 defines substantive CCOs as a CCO that is either wholly owned or wholly controlled by the council and either is responsible for the delivery of a significant service or activity on behalf of the council; or owns or manages assets with a value of more than $10 million; and includes Auckland Transport.

Basis of reporting

The substantive CCOs within the Group comprise the following:

Name	Principal activity and nature of relationship where there is no direct ownership	Percentage ownership % 2017	Percentage ownership % 2016
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 the council is its sole shareholder.*	*	*
Auckland Council Investments Limited (ACIL)	Holds and manages the Group's major investments, including: • Ports of Auckland Ltd (POAL) (100% owned) • Auckland International Airport Ltd (22.33% owned).	100	100
Auckland Tourism, Events and Economic Development Limited	Manages projects for economic development, tourism and events promotion in the Auckland region.	100	100
Panuku Development Auckland Limited	Facilitates the redevelopment of urban locations. Contributes to accommodating residential and commercial growth. Optimises the council's property portfolio. Continues to lead the development of the Auckland waterfront.	100	100
Regional Facilities Auckland (RFA)	Supports and promotes the engagement of the Auckland community in arts, culture, heritage, leisure, sports and entertainment activities and develops, owns and manages the venues for these activities. **Regional Facilities Auckland is a charitable trust of which Regional Facilities Auckland Ltd, a 100% owned subsidiary of the council, is the sole trustee.*	*	*
Watercare Services Limited (Watercare)	Owns and manages the Auckland region's water and wastewater assets. *Watercare is restricted by LGACA 2009 section 57(1)(b) from paying any dividend or distributing any surplus directly or indirectly to the council.*	100	100

Implementation of new and amended standards

PBE International Financial Reporting Standard (IFRS) 9 *Financial Instruments* is effective from periods beginning on or after 1 January 2021. PBE IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and relaxes current requirements for hedge accounting. The Group and the council are yet to assess the impact of PBE IFRS 9 to the Group and the council. The Group and the council intend to early adopt the standard when it becomes effective for for-profit entities from period beginning on 1 July 2018.

The five new standards, PBE IPSAS 34 *Separate Financial Statements*, PBE IPSAS 35 *Consolidated Financial Statements*, PBE IPSAS 36 *Investment in Associates and Joint Ventures*, PBE IPSAS 37 *Joint Arrangements* and PBE IPSAS 38 *Disclosure of Interests in Other Entities*, are effective from periods beginning on or after 1 January 2019. The Group and the council intend to early adopt these standards beginning 1 July 2017. The new standards will have an impact to the Group and the council in assessing control through using additional guidance of the new standards and in determining the types of joint arrangements based on two types: joint operations and joint ventures. The Group and the council are yet to assess the impact of these new standards.

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

Section A: Results of the year

This section focuses on the performance of the Group and the council during the year. This highlights the rates and other revenue earned and how these are applied against our major expenses such as employee benefits and finance costs.

The notes in the section are as follows:

A1 Revenue

A2 Operating expenses

A3 Employee benefits

A4 Depreciation and amortisation

A5 Finance costs

A6 Net other gains and losses

A7 Income tax

Section A: Results of the year

A1 Revenue

Accounting policy

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

Type	Recognition & measurement
Rates	In full at point of issuance of the ratings notice and measured at the amount assessed, which is the fair value of the cash received or receivable.
Grants and subsidies	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 at fair value as grants and subsidies received in advance and recognised as revenue when conditions of the grant and subsidies are satisfied.
Development contributions	When the council is capable of providing the service for which the contribution was levied.
Financial contributions	When they are expended on the activity for which the contribution was levied.
Vested assets[1]	When control of the asset is transferred to the Group and the council at its fair value.
Fines and infringements	When the infringement notice is issued.
Finance revenue[2]	Using the effective interest method.
Dividend revenue	When the Group and the council's right to receive the dividend is established.
Fees and user charges	
Water and wastewater	When invoiced or accrued in the case of unbilled services at fair value of cash received or receivable.
Sale of goods	When the substantial risks and rewards of ownership have been passed to the buyer.
Sale of services	On a percentage of completion basis over the period of the service supplied.
Port operations	In the period the services are rendered, by reference to the percentage of completion of the specific transaction.
Consents	By reference to the percentage of completion of the transaction at balance date based on the actual service rendered.
Licences and permits	On receipt of application as these are non-refundable.

[1] Arise when property developers undertake development which requires them to build infrastructure in the development area. When the development is complete these are vested to the Group and the council.

[2] Includes interest revenue and realised gains from the early close-out of derivative positions.

Section A: Results of the year

A1 Revenue (continued)

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

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Revenue from non-exchange transactions:				
Revenue from rates				
General	1,452	1,391	1,462	1,401
Targeted	178	172	178	172
Penalties	18	15	18	15
Rates remissions	(6)	(11)	(6)	(11)
Discounts	(1)	(3)	(1)	(3)
Total revenue from rates	**1,641**	**1,564**	**1,651**	**1,574**
Revenue from transfers				
Sales of goods and services	274	194	84	83
Vested assets	374	247	106	64
Fines and infringements	34	32	3	3
Consents, licences and permits	166	157	165	156
Capital grants and subsidies	187	153	2	10
Operating grants and subsidies	272	251	14	12
Other transfer revenue	105	94	43	57
Total revenue from transfers	**1,412**	**1,128**	**417**	**385**
Total revenue from non-exchange transactions	**3,053**	**2,692**	**2,068**	**1,959**
Revenue from exchange transactions:				
Water and wastewater	456	443	-	-
Sales of goods and services	49	51	-	1
Port operations	214	204	-	-
Development and financial contributions	164	131	164	131
Finance revenue	17	16	91	100
Dividends received	10	27	96	94
Other exchange revenue	166	141	27	28
Total revenue from exchange transactions	**1,076**	**1,013**	**378**	**354**
Total revenue	**4,129**	**3,705**	**2,446**	**2,313**

The annual rates revenue of the council for the year ended 30 June 2017 for the purposes of the Local Government Funding Agency Ltd (LGFA) Guarantee and Indemnity Deed disclosure is $1.7 billion (2016: $1.6 billion). Refer to Note F4 for further information.

Section A: Results of the year

A1 Revenue (continued)

Explanation of significant variances against budget

	Group		Council	
2017 $million	**Actual**	**Budget**	**Actual**	**Budget**
Total revenue	4,129	3,969	2,446	2,442

Group

Revenue is higher against budget by $160 million mainly due to the following:

- higher volume of vested infrastructure assets received than budgeted ($178 million);
- favourable results on other revenue ($29 million) mainly driven by higher than expected:
  - rental income of various CCOs ($12 million);
  - Infrastructure Growth Charge by Watercare ($8 million) due to growth in developments during the year;
  - dividend income from the Group's Other financial assets ($5 million); and,
  - income from AT Hop card sales and other commercial activities ($4 million).

The above favourable results are partly offset by the following:

- lower capital grants received from New Zealand Transport Agency (NZTA) ($40 million) for transport infrastructure due to capital projects being behind budget; and,
- lower than expected public transport income and parking fees by Auckland Transport ($12 million).

The remaining variance is driven by net favourable variance which are not individually material.

Local government disclosures

The council's rating base information relating to preceding financial year as at 30 June 2016 follows:

	2016
Number of rating units	542,408
Total capital value of rating units (in $million)	488,382
Total land value of rating units (in $million)	290,907

Section A: Results of the year

A2 Operating expenses

Accounting policy

Grants and subsidies

Where grants and subsidies are discretionary, the expense is recognised when the Group and the council have advised their decision to pay and when conditions, if any, are satisfied. Non-discretionary grants are recognised on receipt of application that meets the specified criteria.

Impairment of property, plant and equipment and intangible assets

The initial measurement on property, plant and equipment and intangible assets is disclosed in Notes B1 and B2.

Intangible assets subsequently measured at cost that have indefinite useful life are tested annually for impairment. Property, plant and equipment and intangible assets subsequently measured at cost that have finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any indication exists, the Group and the council estimate the asset's recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

An impairment loss is recognised in surplus or deficit for the amount by which the asset's carrying amount exceeds its recoverable amount.

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.

Property, plant and equipment that is measured at fair value, is not required to be separately tested for impairment.

Operating expenses include:

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Grants, contributions and sponsorship	127	126	1,057	909
Goods and services	696	535	168	121
Consultancy and professional services	151	174	70	99
Repairs and maintenance	247	243	116	112
Utilities and occupancy	84	81	46	46
Rental and lease	50	42	29	28
Impairment of receivables	2	2	-	-
Fees paid to elected members	10	10	10	10
Fees to auditors	4	4	1	1

Explanation of significant variances against budget

	Group		Council	
2017 $million	**Actual**	**Budget**	**Actual**	**Budget**
Other operating expenses	1,464	1,380	570	480

Section A: Results of the year

A2 Operating expenses (continued)

Explanation of significant variances against budget (continued)

Group

Other operating expenses are higher than budget by $84 million mainly due to the following:

- unfavourable costs of goods and services ($59 million) mainly driven by:
  - the council's higher than budgeted costs from resource and building consents due to greater number of external resourcing required to process the consents within the statutory timeframe ($39 million); and,
  - the recognition of gross costs ($20 million) incurred on transport operation contracts as a result of the new Public Transport Operating Model;
- increase in weathertightness provision ($30 million) driven by greater clarity around the cost of repairing some of the known multi-unit dwelling claims and refinements in the assumptions used in estimating reported and unreported provisions; and,
- full recognition of expenses in relation to the financial guarantee and loan provided to Eden Park Trust Board ($29 million).

The above variance is partly offset by the positive variance from consultancy and professional fees ($33 million) from:

- Auckland Transport due to project delays (such as light rail transit investigations and various asset management projects) ($21 million); and,
- the council's consultancy and research savings ($19 million) as the costs were reclassified to costs of goods and services above, partly offset by legal overspend ($7 million).

Council

The council's operating expenses are higher than budget by $90 million due to the increase in weathertightness, full recognition of expense in relation to the financial guarantee and loan provided to the Eden Park Trust Board and unfavourable costs of goods and services which are consistent with the analysis under the Group. These are partly offset by the positive variance from net consultancy and professional fees.

The remaining variance is driven by net unfavourable variances which are not individually material.

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.

	Council	
$million	**2017**	**2016**
Auckland War Memorial Museum	30	29
MOTAT	13	12
Auckland Regional Amenities Funding Board	16	15

Section A: Results of the year

A2 Operating expenses (continued)

Fees to auditors
The following fees were charged for the services provided by the auditors of the Group and the council:

	Group		Council	
$000	**2017**	**2016**	**2017**	**2016**
Audit of financial statements	**3,369**	**3,326**	**1,153**	**1,130**
Other assurance-related services:				
Review of interim financial statements	307	277	114	111
Agreed upon procedures on foreign borrowings	43	43	43	43
Debenture Trust Deed services	4	-	4	-
Required by legislation:				
Review of service performance	43	60	43	60
Audit of Long-term Plan (amendment relating to Housing for Older people arrangement)	15	60	15	60
	412	**441**	**219**	**274**
Other services:				
Cyber/cloud security review and advice	284	4	-	-
Forensic services	79	-	-	-
Procurement assurance	36	-	-	-
Other*	16	17	-	-
Total fees to auditors	**4,196**	**3,788**	**1,372**	**1,404**

* Other includes ERP systems review, negative pledge reporting and tax advisory.

A3 Employee benefits

Accounting policy

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

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Salaries and wages	767	741	460	454
Contributions to defined contribution schemes	21	20	12	12
Termination benefits	13	8	11	7
Other	52	34	25	11
Total employee benefits	**853**	**803**	**508**	**484**

Refer to Note D4 for employee entitlement liability as at 30 June 2017 and 30 June 2016 and Note F5 for further information on the remuneration of key management personnel and elected representatives.

Explanation of significant variances against budget

	Group		Council	
2017 $million	**Actual**	**Budget**	**Actual**	**Budget**
Employee benefits	853	811	508	481

Section A: Results of the year

A3 Employee benefits (continued)

Explanation of significant variances against budget (continued)

Group
Higher than budgeted employee benefits of $42 million is mainly driven by the following:
- leave entitlement provision recognised in compliance with the Holidays Act 2003 ($18 million) (refer to Note D5);
- unbudgeted redundancy costs ($11 million) in the council as a result of restructuring across various departments; and,
- unbudgeted labour costs and annual leave provision at RFA and POAL ($11 million).

The remaining variance is driven by net unfavourable Group results which are not individually material.

Council
Employee benefits are higher than budgeted by $27 million mainly due to the following:
- leave entitlement provision recognised in compliance with the Holidays Act 2003 ($16 million) (refer to Note D5); and,
- unbudgeted redundancy costs ($11 million) as a result of restructuring across various departments.

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	2017	2016
Regional planning	2	2
Waterfront development	9	9
Economic growth and visitor economy	1	1
Regional facilities	27	25
Regulation	2	2
Solid waste and environmental services	4	3
Stormwater management	55	56
Investment	24	24
Organisational support	103	94
Regional community services	20	17
Local community services	1	1
Regional parks, sport and recreation	67	54
Local parks, sport and recreation	1	10
Public transport and travel demand management	75	72
Roads and footpaths	247	235
Parking and enforcement	9	8
Water supply	101	96
Wastewater treatment and disposal	126	119
Total depreciation and amortisation (Notes B1 and B2)	**874**	**828**

Section A: Results of the year

A4 Depreciation and amortisation (continued)

Explanation of significant variances against budget

2017 $million	Group Actual	Group Budget	Council Actual	Council Budget
Depreciation and amortisation	874	886	256	256

Group

The favourable depreciation variance of $12 million is largely driven by Auckland Transport's lower than budgeted depreciation rates for intangible assets and capital projects being behind budget.

A5 Finance costs

Accounting policy

Finance costs include interest expense, the unwinding of discounts on provisions and financial assets; and net realised losses on the early close-out of derivatives. Interest expense is recognised using the effective interest rate method. Interest expense includes the amortisation of borrowing costs recognised over the borrowing term.

$million	Group 2017	Group 2016	Council 2017	Council 2016
Interest	422	398	364	345
Interest expense on provisions due to change in discount rate (refer Note D5)	36	-	36	-
Interest expense on provisions due to discount unwind (refer Note D5)	8	12	8	12
Net loss on early close-out of swaps	3	5	3	2
Other	2	2	2	1
Total finance costs	**471**	**417**	**413**	**360**

Refer to Note E2 for information about interest rate risk and interest rate risk management.

Explanation of significant variances against budget

2017 $million	Group Actual	Group Budget	Council Actual	Council Budget
Finance costs	471	465	413	415

Group

The variance of $6 million is mainly driven by:
- impact of discount rate changes on weathertightness and contaminated land provisions ($36 million) (refer to Note D5); and offset by
- favourable variance on interest from borrowings ($28 million) driven by lower average cost of funding.

The remaining variance is driven by net favourable Group results which are not individually material.

Council

The favourable variance on finance expenses of the council is consistent with the Group due to the impact of discount rate changes with higher favourable variance on borrowing costs.

Section A: Results of the year

A6 Net other gains and losses

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Net gains/(losses) on change in fair value of derivative financial instruments	237	(661)	146	(523)
Net increase in fair value of investment property	61	62	15	17
Net increase/(decrease) in financial instruments designated at fair value through surplus/(deficit)	16	(15)	15	(14)
Net foreign exchange (losses)/gains recognised in surplus/(deficit) on financial instruments held at amortised cost	(13)	122	(13)	121
Impairment of property, plant and equipment and intangible assets	(12)	(10)	(7)	(10)
Impairment of investment in subsidiaries, associates and joint ventures	(6)	(1)	-	-
Net (losses)/gains on disposal of property, plant and equipment and intangible assets	(2)	(49)	5	(34)
Total net other gains/(losses)	**281**	**(552)**	**161**	**(443)**

Explanation of significant variances against budget

	Group		Council	
2017 $million	**Actual**	**Budget**	**Actual**	**Budget**
Net other losses	281	-	161	-

Net other gains of the Group of $281 million and of the council of $161 million, which are not budgeted for due to volatility, are mainly driven by the net movement in the fair value of the financial assets and financial liabilities, which are non-cash items, as a result of the increase in interest rates over the financial year.

A7 Income tax

Accounting policy

The Group and the council are exempt from income tax under the Income Tax Act 2007 except for certain income received from CCOs and port-related undertakings.

Income tax comprises current tax and deferred tax calculated using the tax rate that has been enacted or substantively enacted by the reporting 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.

Section A: Results of the year

A7 Income tax (continued)

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Components of income tax (benefit)/expense				
Current tax	-	6	-	-
Deferred tax	56	(14)	-	-
Total income tax (benefit)/expense	**56**	**(8)**	**-**	**-**
Relationship between income tax and accounting surplus/(deficit)				
Net deficit/(surplus) before tax	696	(239)	(193)	(636)
(Deficit)/surplus from non-taxable activities	(419)	613	193	636
Taxable surplus	**277**	**374**	**-**	**-**
Prima facie income tax at 28% (2016: 28%)	77	105	-	-
Prior period adjustment	1	-	-	-
Tax effect of permanent differences	33	(91)	-	-
Associates' income net of tax	(20)	(18)	-	
Loss offset net of group losses utilised	4	9	-	-
De-recognition of deferred tax assets	-	1	-	-
Tax credits	(21)	(14)	-	-
Reversal of tax liability for prior year tax loss offsets	(16)	(9)	-	-
Other adjustments	(2)	10	-	-
Total income tax expense/(benefit)	**56**	**(8)**	**-**	**-**

Imputation credit

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Imputation credits available for use in subsequent reporting periods	53	105	-	-

A consolidated income tax group was formed from 1 July 2013. Significant entities in the Group are included with the exception of Watercare. The $53 million (2016: $105 million) of imputation credits relates to the consolidated financial group. The total imputation credit available for use by each of the members of the consolidated income tax group is $23 million (2016: $75 million).

Section B: Long-term assets

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

The notes in this section are as follows:

B1 Property, plant and equipment

B2 Intangible assets

B3 Investment property

Section B: Long-term assets

B1 Property, plant and equipment

Accounting policy

The property, plant and equipment of the Group and the council are classified into three categories:

- **Infrastructure assets** include land under roads and systems and networks integral to the city's infrastructure and 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 for administration, as a community service or as a business activity. Other operational assets include landfills, motor vehicles, office equipment, library books and furniture and fittings; and,
- **Restricted assets** include property and improvement where the use or transfer of title outside of the Group and the council is legally restricted.

Initial recognition and subsequent measurement

Property, plant and equipment is recognised initially at cost, unless acquired through a non-exchange transaction, in which case the asset is recognised at fair value at the date of acquisition. Subsequent costs that extend or expand the asset's future economic benefits and service potential are capitalised. After initial recognition, certain classes of property, plant and equipment are revalued. Capital work in progress is recognised at cost less impairment 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	Indefinite	Marina structures	40-100
Roads	10-120	Rolling stock	2-35
Water and wastewater	3-200	Wharves	2-100
Machinery	3-200	Works of art	Indefinite
Storm water	10-200	Other operational	1-100
Other infrastructure	10-120	**Restricted**	
Operational		Parks and reserves	Indefinite
Land	Indefinite	Buildings	5-90
Buildings	1-101	Improvements	3-100
Train stations	5-99	Specified and cultural heritage	Indefinite
Bus stations and shelters	10-99		

Disposals

Gains and losses on 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.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Group 2017	Opening balance: Cost/ valuation $million	Opening balance: Accumulated depreciation and impairment $million	Opening balance: Carrying amount $million	Current year movements: Transfers from capital work in progress $million	Current year movements: Additions $million	Current year movements: Depreciation (Note A4) $million	Current year movements: Impairment $million	Current year movements: Disposals $million	Current year movements: Transfers* $million	Current year movements: Revaluations, net of accumulated depreciation $million	Closing balance: Cost/ valuation $million	Closing balance: Accumulated depreciation and impairment $million	Closing balance: Carrying amount $million
Infrastructure													
Roads	8,496	(459)	8,037	501	-	(244)	-	-	3	1,385	9,690	(8)	9,682
Water and waste water	7,054	(150)	6,904	231	-	(162)	-	(5)	-	-	7,278	(310)	6,968
Machinery	979	(51)	928	48	-	(48)	-	(3)	-	-	1,023	(98)	925
Storm water	4,253	(46)	4,207	131	-	(47)	-	(1)	-	-	4,383	(93)	4,290
Land	6,299	-	6,299	189	-	-	-	(7)	(9)	-	6,472	-	6,472
Work in progress	850	-	850	(1,104)	1,119	-	-	-	-	-	865	-	865
Other	3	-	3	4	-	-	-	-	(2)	-	5	-	5
	27,934	**(706)**	**27,228**	**-**	**1,119**	**(501)**	**-**	**(16)**	**(8)**	**1,385**	**29,716**	**(509)**	**29,207**
Operational													
Land and buildings	5,213	(14)	5,199	166	-	(81)	(4)	(45)	(75)	-	5,254	(94)	5,160
Train stations	548	(23)	525	14	-	(22)	-	-	-	62	579	-	579
Bus stations and shelters	68	(9)	59	21	-	(4)	-	-	-	4	80	-	80
Marina structures	135	(13)	122	-	-	(2)	-	-	(61)	4	65	(2)	63
Rolling stock	487	(39)	448	5	-	(15)	-	(2)	-	-	490	(54)	436
Wharves	385	(9)	376	48	-	(9)	-	-	(8)	-	425	(18)	407
Works of art	271	-	271	7	-	-	-	-	1	13	293	(1)	292
Work in progress	379	-	379	(362)	567	-	-	-	(150)	-	434	-	434
Other	876	(398)	478	101	-	(94)	-	(6)	53	-	1,019	(487)	532
	8,362	**(505)**	**7,857**	**-**	**567**	**(227)**	**(4)**	**(53)**	**(240)**	**83**	**8,639**	**(656)**	**7,983**
Restricted													
Parks, reserves and buildings	4,962	-	4,962	66	-	(3)	(1)	(4)	7	-	5,030	(3)	5,027
Improvements	1,099	(226)	873	82	-	(55)	-	-	1	-	1,183	(282)	901
Specified cultural and heritage	150	-	150	-	-	-	-	-	-	-	150	-	150
Work in progress	86	-	86	(148)	155	-	-	-	-	-	93	-	93
	6,297	**(226)**	**6,071**	**-**	**155**	**(58)**	**(1)**	**(4)**	**8**	**-**	**6,456**	**(285)**	**6,171**
Total group	**42,593**	**(1,437)**	**41,156**	**-**	**1,841**	**(786)**	**(5)**	**(73)**	**(240)**	**1,468**	**44,811**	**(1,450)**	**43,361**

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

Section B: Long-term assets

B1 Property, plant and equipment (continued)

	Opening balance			Current year movements							Closing balance		
Group 2016	Cost/ valuation $million	Accumulated depreciation and impairment $million	Carrying amount $million	Transfers from capital work in progress $million	Additions $million	Depreciation (Note A4) $million	Impairment $million	Disposals $million	Transfers* $million	Revaluations, net of accumulated depreciation $million	Cost/ valuation $million	Accumulated depreciation and impairment $million	Carrying amount $million
Infrastructure													
Roads	8,184	(224)	7,960	302	-	(235)	-	-	10	-	8,496	(459)	8,037
Water and waste water	6,872	(1)	6,871	189	-	(149)	-	(7)	-	-	7,054	(150)	6,904
Machinery	945	(1)	944	37	-	(49)	-	(1)	(3)	-	979	(51)	928
Storm water	4,149	-	4,149	105	-	(45)	-	(2)	-	-	4,253	(46)	4,207
Land	5,889	-	5,889	114	-	-	-	-	296	-	6,299	-	6,299
Work in progress	714	-	714	(760)	896	-	-	-	-	-	850	-	850
Other	3	-	3	13	-	-	-	(2)	(11)	-	3	-	3
	26,756	**(226)**	**26,530**	**-**	**896**	**(478)**	**-**	**(12)**	**292**	**-**	**27,934**	**(706)**	**27,228**
Operational													
Land and buildings	4,679	(93)	4,586	157	-	(75)	-	(45)	(309)	885	5,213	(14)	5,199
Train stations	532	(41)	491	3	-	(22)	-	-	2	51	548	(23)	525
Bus stations and shelters	51	(2)	49	2	-	(3)	-	-	11	-	68	(9)	59
Marina structures	136	(9)	127	3	-	(3)	-	-	(5)	-	135	(13)	122
Rolling stock	434	(22)	412	54	-	(17)	-	(2)	1	-	487	(39)	448
Wharves	340	-	340	27	-	(9)	-	(1)	19	-	385	(9)	376
Works of art	267	-	267	3	-	-	-	(1)	2	-	271	-	271
Work in progress	351	-	351	(348)	376	-	-	-	-	-	379	-	379
Other	826	(333)	493	99	-	(86)	-	(7)	(21)	-	876	(398)	478
	7,616	**(500)**	**7,116**	**-**	**376**	**(215)**	**-**	**(56)**	**(300)**	**936**	**8,362**	**(505)**	**7,857**
Restricted													
Parks, reserves and buildings	4,162	(2)	4,160	115	-	(3)	-	-	-	690	4,962	-	4,962
Improvements	982	(177)	805	117	-	(51)	-	-	2	-	1,099	(226)	873
Specified cultural and heritage	151	-	151	-	-	-	-	-	(1)	-	150	-	150
Work in progress	135	-	135	(232)	183	-	-	-	-	-	86	-	86
	5,430	**(179)**	**5,251**	**-**	**183**	**(54)**	**-**	**-**	**1**	**690**	**6,297**	**(226)**	**6,071**
Total group	**39,802**	**(905)**	**38,897**	**-**	**1,455**	**(747)**	**-**	**(68)**	**(7)**	**1,626**	**42,593**	**(1,437)**	**41,156**

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

Section B: Long-term assets

B1 Property, plant and equipment (continued)

	Opening balance			Current year movements							Closing balance		
Council 2017	Cost/ valuation $million	Accumulated depreciation and impairment $million	Carrying amount $million	Transfers from capital work in progress $million	Additions $million	Depreciation $million	Impairment $million	Disposals $million	Transfers* $million	Revaluations, net of accumulated depreciation $million	Cost/ valuation $million	Accumulated depreciation and impairment $million	Carrying amount $million
Infrastructure													
Storm water	4,247	(46)	4,201	131	-	(47)	-	(1)	-	-	4,377	(93)	4,284
Work in progress	91	-	91	(136)	146	-	-	-	-	-	101	-	101
Other	3	-	3	5	-	-	-	(5)	3	-	6	-	6
	4,341	**(46)**	**4,295**	**-**	**146**	**(47)**	**-**	**(6)**	**3**	**-**	**4,484**	**(93)**	**4,391**
Operational													
Land and buildings	2,750	(1)	2,749	99	27	(49)	(1)	(20)	(35)	-	2,819	(49)	2,770
Works of art	10	-	10	2	1	-	-	-	-	-	13	-	13
Work in progress	129	-	129	(138)	179	-	-	-	-	-	170	-	170
Other	380	(217)	163	37	7	(47)	-	(6)	(4)	-	409	(259)	150
	3,269	**(218)**	**3,051**	**-**	**214**	**(96)**	**(1)**	**(26)**	**(39)**	**-**	**3,411**	**(308)**	**3,103**
Restricted													
Parks, reserves and buildings	4,953	-	4,953	66	1	(3)	(1)	(4)	9	-	5,024	(3)	5,021
Improvements	1,099	(226)	873	82	1	(55)	-	(1)	-	-	1,182	(282)	900
Specified cultural and heritage	151	-	151	-	-	-	-	-	-	-	151	-	151
Work in progress	87	-	87	(148)	154	-	-	-	-	-	93	-	93
	6,290	**(226)**	**6,064**	**-**	**156**	**(58)**	**(1)**	**(5)**	**9**	**-**	**6,450**	**(285)**	**6,165**
Total council	**13,900**	**(490)**	**13,410**	**-**	**516**	**(201)**	**(2)**	**(37)**	**(27)**	**-**	**14,345**	**(686)**	**13,659**

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

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Council 2016	Opening balance			Current year movements							Closing balance		
	Cost/ valuation $million	Accumulated depreciation and impairment $million	Carrying amount $million	Transfers from capital work in progress $million	Additions $million	Depreciation $million	Impairment $million	Disposals $million	Transfers* $million	Revaluations, net of accumulated depreciation $million	Cost/ valuation $million	Accumulated depreciation and impairment $million	Carrying amount $million
Infrastructure													
Storm water	4,144	-	4,144	105	-	(46)	-	(2)	-	-	4,247	(46)	4,201
Work in progress	90	-	90	(118)	119	-	-	-	-	-	91	-	91
Other	4	(1)	3	13	-	-	-	(2)	(11)	-	3	-	3
	4,238	**(1)**	**4,237**	**-**	**119**	**(46)**	**-**	**(4)**	**(11)**	**-**	**4,341**	**(46)**	**4,295**
Operational													
Land and buildings	2,308	(45)	2,263	101	-	(46)	-	(43)	8	466	2,750	(1)	2,749
Works of art	6	-	6	2	-	-	-	-	2	-	10	-	10
Work in progress	160	-	160	(154)	123	-	-	-	-	-	129	-	129
Other	336	(180)	156	51	-	(39)	-	(7)	2	-	380	(217)	163
	2,810	**(225)**	**2,585**	**-**	**123**	**(85)**	-	**(50)**	**12**	466	**3,269**	**(218)**	**3,051**
Restricted													
Parks, reserves and buildings	4,153	(2)	4,151	115	-	(3)	-	(5)	5	690	4,953	-	4,953
Improvements	982	(177)	805	117	-	(51)	-	-	2	-	1,099	(226)	873
Specified cultural and heritage	151	-	151	-	-	-	-	-	-	-	151	-	151
Work in progress	135	-	135	(232)	184	-	-	-	-	-	87	-	87
	5,421	**(179)**	**5,242**	**-**	**184**	**(54)**	-	**(5)**	**7**	**690**	**6,290**	**(226)**	**6,064**
Total council	**12,469**	**(405)**	**12,064**	**-**	**426**	**(185)**	-	**(59)**	**8**	**1,156**	**13,900**	**(490)**	**13,410**

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

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Work in progress by asset class

	Infrastructure			Operational						Restricted		
$million	Roads	Water and wastewater	Stormwater	Land and buildings	Train stations	Rolling stock	Wharves	Works of art	Others	Parks, reserves and buildings	Improvements	Total
Group												
2017	309	455	101	129	150	1	3	3	148	12	81	1,392
2016	345	412	93	119	187	3	4	3	63	6	80	1,315
Council												
2017	-	-	101	102	-	-	-	4	64	12	81	364
2016	-	-	91	83	-	-	-	3	43	6	81	307

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 the off-cycle 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 to the asset revaluation reserve in equity for that class of asset. Revaluation loss that results in a debit balance in the asset revaluation reserve is recognised in surplus or deficit. Any subsequent gain on revaluation is recognised first in the surplus or deficit up to the amount previously expensed and then recognised in other comprehensive revenue and expenditure.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Significant judgements and estimates

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

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

It is assumed that all asset classes have a zero 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.

Asset class	Last revalued date	Asset revaluation reserve (in $ million)				Net change for the period (in $ million)		Independent valuer and key assumptions
		Group		Council				
		2017	2016	2017	2016	Group	Council	
Infrastructure								
Water and wastewater	30 June 2015	655	657	-	-	(2)	-	Independent valuer: Beca Projects NZ Ltd. The machinery of the Group is composed of engines and turbines installed at the water and wastewater pump stations. These are revalued together with the water and wastewater assets. The key assumptions used for both classes are: • construction costs determined with reference to recent construction contracts and the unit rates reflect the costs of replacing assets • useful lives of assets calculated as the lesser of their physical life or the point where the asset is to be replaced for economic reasons. Condition information and age are taken into account • the capital goods price index (CGPI) which has been used where indexation is appropriate. CGPI rate represent 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 2015 quarter extrapolated to June 2015.
Machinery	30 June 2015	86	87	-	-	(1)	-	
Stormwater	30 June 2015	715	715	711	711	-	-	Independent valuer: GHD Ltd who performed a peer-review of in-house valuation. Key assumptions: • Unit rates for replacement have been applied to the assets based on size, material, depth and location. Unit rates have been derived from stormwater physical works contract 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.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Asset class	Last revalued date	Asset revaluation reserve (in $ million) Group 2017	Group 2016	Council 2017	Council 2016	Net change for the period (in $ million) Group	Council	Independent valuer and key assumptions
Infrastructure								
Roads	30 June 2017	3,010	1,625	-	-	1,385	-	Independent valuer: ANA Group Ltd. Key assumptions: • Unit rate for road construction based on the most current contracted rates applicable to the Group. Where there is no current contracted unit rate information available, the most recent rates are used indexed for the impact of inflation. The unit rate applied to the pavement depths has changed from 350 millimetres (mm) in 2014 to 600mm in 2017. • Remaining useful life of the asset considering the age, condition information held on these assets and the asset's future service potential. These assumptions can be affected by local conditions such as ground type, weather patterns and road usage.
Operational								
Land and buildings	30 June 2016	1,391	1,414	787	794	(23)	(7)	Independent valuers: Bayleys Valuation Ltd, Beca Projects NZ Ltd, Quotable Value Ltd, Jones Lang LaSalle Ltd and Seager and Partners Key assumptions: • Market value based on recent equivalent sales information • DRC is used where no market exists for operational buildings with allowance for age and condition of building, and configuration.
Train stations	30 June 2017	273	211	-	-	62	-	Independent valuer: Opus International Consultants Ltd. Key assumptions: • Optimised replacement cost 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 of 60 years or less reflecting the rate of change and obsolescence in the environment for each elemental value.
Bus stations and shelters	30 June 2017	14	10	-	-	4	-	Independent valuer: ANA Group Ltd. Key assumptions: • Optimised replacement cost 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.
Marina structures	30 June 2017	30	26	-	-	4	-	Independent valuers: Seagar & Partners Key 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.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Asset class	Last revalued date	Asset revaluation reserve (in $ million)				Net change for the period (in $ million)		Independent valuer and key assumptions
		Group		Council				
		2017	2016	2017	2016	Group	Council	
Operational								
Rolling stock	n/a	n/a	n/a	n/a	n/a	n/a	n/a	The rolling stock of the Group pertains to the newly acquired electric multiple units (EMU) which will be revalued in 2018.
Wharves	30 June 2015	70	70	-	-	-	-	Independent valuer: Opus International Consultants Ltd, Beca Projects NZ Ltd, Jones Lang Lasalle Ltd and NAI Harcourts Valuations. Key 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.
Works of art	30 June 2017	19	6	-	-	13	-	Independent valuer: Sotheby's (London) and Mossgreen-Webb's (Auckland) Key assumptions: • 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 condition.
Restricted								
Parks, reserves and buildings	30 June 2016	1,282	1,282	1,282	1,282	-	-	Independent valuer: Quotable Value Ltd. Key assumptions: • Large reserves are valued based on a rural land value plus locational adjustment taken into consideration active/passive zone differentials which are based on the valuers' professional expertise and judgements • Buildings are based on DRC determined with reference to recent construction contracts and recent costing obtained from construction details and Property Institute of New Zealand's cost information.
Total		**7,545**	**6,103**	**2,780**	**2,787**	**1,442**	**(7)**	

Net change for the period on Water and wastewater, Machinery and Operational land and buildings pertains to transfer to accumulated funds driven by the derecognition of assets.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Spark Arena (previously named Vector Arena)
Included within operational land and buildings is $88 million (2016: $89 million) being the depreciated carrying value for the Spark Arena. The Spark Arena, which provides Aucklanders with an indoor sports and entertainment, was constructed and operated by Quay Park Arena Management Limited (QPAM) under the development agreement with the Group. The development agreement also granted QPAM legal title to the building improvements which QPAM will revert to the Group on 1 August 2046.

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

Heritage assets
Some assets are described 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 the asset classes. The Group and the council have identified significant assets with a net book value of $310 million accounted as follows:

- Heritage books valued at $150 million as at 30 June 2017
- 229 group and council owned built heritage sites identified within Auckland Region valued at $159 million as at 30 June 2017.

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 the specified purposes, generally being to benefit the city of Auckland. Certain classes of property, plant and equipment where restrictions apply follow:

$million		Land and buildings	Parks, reserves and buildings	Total
Group				
	2017	325	23	**349**
	2016	332	19	351
Council				
	2017	187	23	**210**
	2016	191	19	210

Finance leases
Other operational assets include property, plant and equipment subject to finance leases. The value of which is $38 million for the Group (2016: $39 million) and $38 million for the council (2016: $39 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 (2016: $nil) for the Group and the council.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Service concession assets
For definition of service concession arrangement and assets, please see Glossary on page 113.

The Group's service concession assets are infrastructure assets owned by Watercare 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. A one-off fee of $13 million was received at the commencement of the agreement that covers the right to use the assets for a 50-year period and is recognized as revenue evenly over the term of the agreement. Revenue received in advance as at 30 June 2017 is $8 million ($8 million as at 30 June 2016).

Where the Group recognises an asset for the upgrades made by Veolia to the existing service concession assets and, where material, the Group also recognises a liability at the same amount as the asset. The liability so recognised is reduced over the remaining period of the service concession arrangement. The carrying value of service concession asset under water and wastewater asset class amounted to $161 million as at 30 June 2017 ($157 million as at 30 June 2016).

No new service concession arrangements were entered into by the Group and council in 2017 and 2016.

Housing for older people (HfOP)
Included within operational land and buildings is $288 million of HfOP portfolio which pertains to the council's social housing stock used to provide social rental housing primarily for older people in Auckland. The council has entered into an agreement with Haumaru Housing Limited Partnership (Haumaru) effective 1 July 2017 wherein Haumaru has agreed to manage the HfOP portfolio in accordance with the property management and tenancy management requirements referred to in the agreement. Haumaru, on behalf of the council will provide rental services to the elderly tenants and manage improvements and renewals to the HfOP portfolio.

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
2017							
Assets constructed	28	57	86	102	74	9	429
Assets transferred	-	22	6	35	62	2	18
Closing book value	877	2,683	942	3,391	4,229	61	9,682
Estimated replacement cost	1,435	4,725	1,427	6,276	5,579	91	14,331
2016							
Assets constructed	15	111	99	53	74	14	318
Assets transferred	-	9	-	22	31	-	37
Closing book value	888	2,581	945	3,418	4,158	49	8,037
Estimated replacement cost	1,406	4,494	1,355	6,162	5,445	80	8,456

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 2017:

$million	Book value	Insured value	Replacement value of self-insured assets	Commentary
Roads	9,682	-	14,331	Uninsured. However, subject to meeting defined criteria, the cost associated with the immediate response, reopening and/or restoration of these assets as a result of a short natural event such as earthquake, tsunami, could be subsidised by the New Zealand Transport Agency.
Water & wastewater & machinery	7,893	3,200	4,251	Above ground infrastructure such as water and wastewater pump stations are insured to a value of $3.2 billion with a maximum coverage of $200 million per event. For below-ground infrastructure, currently central government funds 60% of the cost of replacing water & wastewater networks damaged in a natural disaster. No provision is made for the self-insured portion (40%) of the replacement cost. Subsequent to year end, the Group obtained insurance cover for the 40% self-insured portion.
Stormwater	4,290	5,511	-	Above ground and below ground infrastructure including pump stations are insured. For below-ground infrastructure, currently central government funds 60% of the cost of replacing stormwater networks damaged in a natural disaster. The Group and the council have a maximum coverage of $100 million per event and in aggregate in the period of insurance.
Buildings, wharves, and other above-ground structures	6,729	7,438	-	For any natural disaster the Group has a maximum coverage of $500 million per event and in aggregate in the period of insurance.
Rolling stock	436	427	9	Insurance is for entire network and includes the electric trains. The Group has a maximum coverage of $100 million per event.
Land	14,232	-	14,232	All land (including restricted land) held by the Group and the council is not insured due to low risk of loss.
Total	**43,262**	**16,576**	**32,823**	

A fund for the purpose of self-insurance is not maintained by the Group or the council.

Section B: Long-term assets

B2 Intangible assets

Accounting policy

Initial recognition and subsequent measurement

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

Useful lives

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

Class of intangible asset	Estimated useful life
Computer software	1-15 years
Intellectual property	4-35 years
Other intangible assets	1-63 years

Disposals

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

	Opening balance			Current year movements							Closing balance		
	Cost/ valuation	Accumulated amortisation	Carrying amount	Transfers from work in progress	Internally developed	Acquisition	Amortisation (Note A4)	Impairment loss charged to surplus or deficit/ write-offs	Disposals	Transfer*	Cost/ valuation	Accumulated amortisation	Carrying amount
Group 2017	$million	$million	$million	$million	$million	$million	$million	$million	$million	$million	$million	$million	$million
Computer software	562	(264)	298	107	-	-	(77)	-	(3)	(1)	656	(332)	324
Rights to acquire	11	-	11	-	-	-	-	-	-	(1)	10	-	10
Intellectual property	65	(41)	24	12	-	-	(8)	-	-	1	78	(49)	29
Other	87	(17)	70	3	-	-	(3)	-	-	1	90	(19)	71
Work in progress	75	-	75	(122)	28	96	-	-	-	-	77	-	77
Total group	**800**	**(322)**	**478**	**-**	**28**	**96**	**(88)**	**-**	**(3)**	**-**	**911**	**(400)**	**511**
Group 2016													
Computer software	394	(194)	200	169	-	-	(68)	-	(3)	-	562	(264)	298
Rights to acquire	11	-	11	1	-	-	-	-	-	(1)	11	-	11
Intellectual property	56	(38)	18	16	-	-	(10)	-	-	-	65	(41)	24
Other	85	(19)	66	7	-	-	(3)	-	-	-	87	(17)	70
Work in progress	174	-	174	(193)	33	71	-	(10)	-	-	75	-	75
Total group	**720**	**(251)**	**469**	**-**	**33**	**71**	**(81)**	**(10)**	**(3)**	**(1)**	**800**	**(322)**	**478**

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

Section B: Long-term assets

B2 Intangible assets (continued)

	Opening balance			Current year movements							Closing balance		
	Cost/ valuation	Accumulated amortisation	Carrying amount	Transfers from work in progress	Internally developed	Acquisition	Amortisation	Impairment loss charged to surplus or deficit/ write-offs	Disposals	Transfers*	Cost/ valuation	Accumulated amortisation	Carrying amount
Council 2017	**$million**	**$million**	**$million**	**$million**	**$million**	**$million**	**$million**	**$million**	**$million**	**$million**	**$million**	**$million**	**$million**
Computer software	362	(159)	203	64	-	-	(47)	-	(2)	-	422	(204)	218
Rights to acquire	11	-	11	-	-	-	-	-	-	(1)	10	-	10
Intellectual property	60	(40)	20	12	-	-	(7)	-	-	-	72	(47)	25
Other	16	(6)	10	-	-	-	(1)	-	-	-	17	(8)	9
Work in progress	43	-	43	(76)	28	40	-	-	-	-	35	-	35
Total council	**492**	**(205)**	**287**	**-**	**28**	**40**	**(55)**	**-**	**(2)**	**(1)**	**556**	**(259)**	**297**
Council 2016													
Computer software	226	(119)	107	141	-	-	(42)	-	(3)	-	362	(159)	203
Rights to acquire	11	-	11	-	-	-	-	-	-	-	11	-	11
Intellectual property	46	(31)	15	14	-	-	(9)	-	-	-	60	(40)	20
Other	15	(5)	10	-	-	-	-	-	-	-	16	(6)	10
Work in progress	154	-	154	(155)	15	39	-	(10)	-	-	43	-	43
Total council	**452**	**(155)**	**297**	**-**	**15**	**39**	**(51)**	**(10)**	**(3)**	**-**	**492**	**(205)**	**287**

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

Intellectual property

Integrated catchment data and network models are intellectual property that provides local information about the stormwater network performance which 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:

- A right to occupy of $32 million as at 30 June 2017 (30 June 2016: $32 million) has been recognised at its fair value on acquisition and is being amortised over the period of the underlying lease (63 years). The lease 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 is due to expire in 2070.
- Resource consents of $29 million as at 30 June 2017 (30 June 2016: $27 million) which are essential to long-term programme of future capital works are being amortised over the period of 1 to 38 years (2016: 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 council, nor are any intangible assets pledged as security for liabilities (2016: $nil).

Work in progress

Intangible assets in the course of construction by asset class are detailed below.

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Computer software	69	63	27	32
Intellectual property	8	12	8	11
Total work in progress	**77**	**75**	**35**	**43**

Section B: Long-term assets

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, determined annually by independent registered valuers with appropriate recognised professional qualifications and recent experience in Auckland and in investment properties. Gains or losses arising from fair value changes are included in surplus or deficit. Investment properties are valued individually and not depreciated.

Investment property	Valuation Method and Assumptions Used
Land	• Valued as vacant under freehold or leasehold tenure • Land value rates applied in the valuations are: ▪ city centre properties \$680 to \$1,370 per square metre (m^2) (2016: \$415 to \$1,755 per m^2) ▪ suburban properties \$100 to \$630 per m^2 (2016: \$100 to \$991 per m^2). • Valuations consider the size, contour, quality, location, zoning, designation and current and potential use.
Commercial property	• Based on indicative yields derived from current prices of comparable property in an active market.
Water space licence	• Using the discounted cash flow method based on yields of 6% (2016: 6%) considers the future rental revenue from existing and anticipated new tenants, any residual value of the Group's interest in the investment.

The movement in investment property is as follows:

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Opening balance	681	560	121	102
Net increase in fair value of investment property	61	62	15	17
Additions from acquisition	53	40	29	-
Disposals	(5)	-	-	-
Transfers (to)/from property, plant and equipment and non-current assets held for sale	(55)	19	(3)	2
Closing balance	**735**	**681**	**162**	**121**

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

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Rental income	28	23	7	5
Expenses	5	5	1	-

The Group and the council have no investment property pledged as security for liabilities during the year (2016: $nil).

Section C: Borrowings and financial instruments

This section provides details of the borrowings of the Group and council - a major source of funding used to deliver services to the people of Auckland, and information about financial instruments such as derivatives acquired to mitigate some of the risks arising from 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 rate method.

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

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Current				
Secured borrowings	975	1,148	975	1,148
Unsecured borrowings	150	299	-	21
Total current borrowings	**1,125**	**1,447**	**975**	**1,169**
Non-current				
Secured borrowings	6,729	5,772	6,729	5,772
Unsecured borrowings	446	392	-	-
Total non-current borrowings	**7,175**	**6,164**	**6,729**	**5,772**
Total borrowings	**8,300**	**7,611**	**7,704**	**6,941**
Fixed/floating rate split				
Fixed rate borrowings	2,655	3,079	2,530	2,973
Floating rate borrowings	5,645	4,532	5,174	3,968
Total borrowings	**8,300**	**7,611**	**7,704**	**6,941**

Borrowings occur through domestic retail and wholesale debt issuance, LGFA, and via foreign debt markets under a secured medium-term note programme and an Australian dollar programme. The foreign denominated debt of the Group and the council amounting to $2,661 million as at 30 June 2017 ($1,471 million as at 30 June 2016) is hedged to mitigate foreign exchange risk. Refer to Note E1 for further information.

Covenants

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

Entities within the Group can also borrow under negative pledge arrangements, being arrangements, which do not permit these entities to grant any security interest over their assets. Financial ratios are set as requirements in these arrangements which are in place for both 2016 and 2017.

Default or breach of covenants

There were no defaults or breaches by the Group and the council on any borrowing arrangement during the current year (2016: nil).

Interest rates

The weighted average cost of funds for the Group's borrowings including interest rate hedging instruments as at 30 June 2017 is 5.3% (2016: 5.2%). Refer to notes A5 and E2 for the net finance costs during the period and the interest rate risk analysis, respectively.

Continuous disclosure

The Group and the council have retail bonds under secured borrowings issued on the New Zealand Stock Exchange (NZX). A requirement under the listing rules is for the Group and the council to meet the continuous disclosure requirements of the NZX and to ensure compliance with the FMCA 2013.

The Group and the council have adopted a continuous disclosure policy that established a continuous disclosure committee of key staff members including the Chief Executive, Group Chief Financial Officer, Director Legal and Risk, Treasurer and Head of Risk. This committee maintains the disclosure register which is used to record any disclosures made from within council and the CCOs that may be material for the purposes of reporting to the NZX to ensure ongoing compliance with the listing rules.

Section C: Borrowings and financial instruments

C1 Borrowings (continued)

Local government disclosures

Internal borrowings
In relation to each group of activities, the council has incurred no internal borrowings during the financial year to 30 June 2017. The Group and the council maintain sufficient cash balances at all times.

Credit ratings
Auckland Council has a Standard & Poor's credit rating of AA (stable) and Moody's credit rating of Aa2. Both ratings were reaffirmed in October 2016.

C2 Derivative financial instruments

Accounting policy

The Group and the council do not hold or issue derivative financial instruments for trading purposes. 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. Such 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 remaining maturity is 12 months or less, or as non-current when the remaining maturity is more than 12 months.

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 the 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 cash flow hedge reserve at that time remains in equity and is recognised when the forecast transaction occurs.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported 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 carrying amount of the asset or liability.

Section C: Borrowings and financial instruments

C2 Derivative financial instruments (continued)

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

The derivatives of the Group and 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 flows valuation technique based on the terms and valuation inputs from independently sourced market parameters summarised below:

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

	2017				2016			
	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	-	-	15	-	-	-	65	1
- fair value through surplus or deficit	-	-	70	1	-	-	125	1
Forward foreign currency contract								
- cash flow hedge	10	-	52	5	-	-	48	3
- fair value through surplus or deficit	-	-	25	1	1	-	45	2
Forward rate agreements								
- fair value through surplus or deficit	-	-	672	-	-	-	-	-
Total current	**10**	**-**	**834**	**7**	**1**	**-**	**283**	**7**
Non-current								
Interest rate swaps								
- cash flow hedge	15	-	155	8	-	-	160	11
- fair value through surplus or deficit	2,275	53	8,634	750	1,475	57	8,923	1,157
Forward foreign currency contract								
- cash flow hedge	35	1	-	-	-	-	6	-
Cross-currency interest rate swaps								
- fair value through surplus or deficit	1,629	110	1,176	104	1,022	206	535	34
Basis swaps								
- fair value through surplus or deficit	1,216	6	-	-	-	-	-	-
Interest rate options								
- fair value through surplus or deficit	-	-	50	3	-	-	50	5
Total non-current	**5,170**	**170**	**10,015**	**865**	**2,497**	**263**	**9,674**	**1,207**
Total derivative	**5,180**	**170**	**10,849**	**872**	**2,498**	**263**	**9,957**	**1,214**

	2017				2016			
	Assets		Liabilities		Assets		Liabilities	
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	-	-	45	1	-	-	10	-
Forward foreign currency contract								
- fair value through surplus or deficit	1	-	25	1	6	-	46	2
Forward rate agreements								
- fair value through surplus or deficit	-	-	672	-	-	-	-	-
Total current	**1**	**-**	**742**	**2**	**6**	**-**	**56**	**2**

Section C: Borrowings and financial instruments

C2 Derivative financial instruments (continued)

	2017				2016			
	Assets		Liabilities		Assets		Liabilities	
Council $million	Notional[1]	Fair value	Notional[1]	Fair value	Notional[1]	Fair value	Notional[1]	Fair value
Non-current								
Interest rate swaps								
- fair value through surplus or deficit	2,070	45	7,044	549	1,288	49	7,328	867
Forward foreign currency contract								
- fair value through surplus or deficit	-	-	-	-	1	-	1	-
Cross-currency interest rate swaps								
- fair value through surplus or deficit	1,629	110	1,176	104	1,022	206	535	34
Basis swaps								
- fair value through surplus or deficit	1,216	6	-	-	-	-	-	-
Total non-current	**4,915**	**161**	**8,220**	**653**	**2,311**	**255**	**7,864**	**901**
Total derivative	**4,916**	**161**	**8,962**	**655**	**2,317**	**255**	**7,920**	**903**

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

C3 Other financial assets

Accounting policy

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

Other financial assets of the Group and the council include unit trusts, 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.

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Current				
Unit trusts	217	270	217	270
Short-term deposits	17	67	16	64
Loans to related parties	-	-	87	87
Borrowers notes	5	-	5	-
Listed shares	19	44	19	44
Other	18	8	17	8
Total current	**276**	**389**	**361**	**473**
Non-current				
Loans to related parties	3	4	1,724	1,566
Borrowers notes	33	34	33	34
Listed shares	36	25	-	-
Other	69	65	57	53
Total non-current	**141**	**128**	**1,814**	**1,653**
Total other financial assets	**417**	**517**	**2,175**	**2,126**

Unit trusts

Unit trusts are recognised at fair value using market information and are designated as fair value through surplus or deficit. They are classified as current as they are held for liquidity purposes. Refer to Note E4 for further information.

Section C: Borrowings and financial instruments

C3 Other financial assets (continued)

Loans to related parties
Loans to related parties are interest bearing at market rates. Interest rates for the year ended 30 June 2017 range from 2.4% to 6.6% (2016: range from 2.5% to 6.2%). Read Note A2 for details of other financial contributions provided by council.

Listed shares
The Group has $36 million (2016: $25 million) of listed shares classified as non-current which are designated as available-for-sale financial assets.

In addition, the Group and council have $19 million (2016: $44 million) of listed shares which are designated as fair value through surplus or deficit. They are classified as current as they are held for liquidity purposes. Refer to the note E4 for further information. The fair values of listed shares are determined by reference to published current bid price quotations in an active market.

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

Other
Significant items included within Other are as follows:

Bonds
The Group and the council hold $18 million of bonds which are carried at amortised cost (2016: $20 million).

Credit Support Annex (CSA)
The Group and the council are exposed to counterparty credit risk through its derivative contracts. This risk is mitigated by entering into CSA's with counterparties that collateralise derivative exposures. The Group and the council have CSA's with Citibank and the Hong Kong and Shanghai Banking Corporation (HSBC). As at 30 June 2017, the Group and the council had both an obligation for repayment of cash collateral received from Citibank (2017: a liability of $23 million, 2016: a liability of $38 million, refer to Note D3) and an amount receivable for cash collateral pledged to HSBC (2017: an asset of $12 million, 2016: nil).

Unlisted shares
The Group and the council have $7 million (2016: $6 million) investments in LGFA and Civic Financial Services Ltd. 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 company's shares.

C4 Fair value and classification of financial instruments

Accounting policy

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

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

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

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

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

Section C: Borrowings and financial instruments

C4 Fair value and classification of financial instruments (continued)

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

		Group		Council	
$million	**Level**	**2017**	**2016**	**2017**	**2016**
Financial assets through surplus or deficit					
Unit trusts	1	217	270	217	270
Listed shares	1	19	44	19	44
Available for sale financial assets					
Listed shares	1	36	25	-	-
Other financial assets	1	10	10	-	-
Unlisted shares	3	7	6	7	6
Derivative assets	2	170	263	161	255
Total financial assets		**459**	**618**	**404**	**575**
Derivative liabilities	2	872	1,214	655	903
Total financial liabilities		**872**	**1,214**	**655**	**903**

There were no transfers between the different levels of the fair value hierarchy during the year (2016: $nil).

Accounting policy

For the purpose of measurement, the Group and the council's financial assets and liabilities are classified into categories. The classification depends on the purpose for which the financial assets and liabilities are held. Management determines the classification of financial assets and liabilities and recognised 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
Loans and receivables	Amortised cost less provision for impairment	Surplus or deficit
Available for sale financial assets	Fair value	Other comprehensive revenue and expenditure
Financial liabilities at amortised cost	Amortised cost	Surplus or deficit
Held to maturity financial assets	Amortised cost less provision for impairment	Surplus or deficit

The Group and the council do not have financial assets for purposes of trading. The Group and the council have listed shares and unit trusts that are designated on initial recognition at fair value through surplus or deficit. This is because the performance of these groups of assets is managed and performance evaluated, on a fair value basis, in accordance with the council's investment management policy. This is consistent with the information that is provided internally to the Finance and Performance Committee.

Derivatives are, by their nature, categorised as held for trading unless they are designated into a hedge relationship for which hedge accounting is applied.

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

Section C: Borrowings and financial instruments

C4 Fair value and classification of financial instruments (continued)

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

	Group				Council			
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
$million	**2017**	**2017**	**2016**	**2016**	**2017**	**2017**	**2016**	**2016**
Assets								
Financial assets through surplus or deficit								
Unit trusts	217	217	270	270	217	217	270	270
Listed shares	19	19	44	44	19	19	44	44
Derivative assets	168	168	263	263	161	161	255	255
Total	**404**	**404**	**577**	**577**	**397**	**397**	**569**	**569**
Available for sale financial assets								
Listed shares	36	36	25	25	-	-	-	-
Unlisted shares	7	7	6	6	7	7	6	6
Other financial assets	10	10	10	10	-	-	-	-
Total	**53**	**53**	**41**	**41**	**7**	**7**	**6**	**6**
Loans and receivables								
Cash and cash equivalents	337	337	137	137	279	279	103	103
Receivables (exclude GST receivables and prepayments)	331	331	278	278	256	256	170	170
Loans to related parties	3	3	4	3	1,811	1,881	1,653	1,750
Other financial assets	107	111	138	142	104	108	134	138
Total	**778**	**782**	**557**	**560**	**2,450**	**2,524**	**2,060**	**2,161**
Held to maturity financial assets								
Bonds (under "Other financial assets")	18	18	20	20	18	18	20	20
Derivative in hedge relationships								
Derivative assets	2	2	-	-	-	-	-	-
Total assets	**1,255**	**1,259**	**1,195**	**1,198**	**2,872**	**2,946**	**2,655**	**2,756**
Liabilities								
Financial liabilities through surplus or deficit								
Derivative liabilities	859	859	1,199	1,199	655	655	903	903
Financial liabilities at amortised cost								
Bank overdraft	6	6	9	9	-	-	-	-
Borrowings	8,300	8,589	7,611	8,231	7,704	7,987	6,941	7,551
Payables and accruals (exclude income received in advance)	656	656	573	573	653	653	519	519
Total	**8,962**	**9,251**	**8,193**	**8,814**	**8,357**	**8,640**	**7,460**	**8,070**
Derivative in hedge relationships								
Derivative liabilities	13	13	15	12	-	-	-	-
Total liabilities	**9,834**	**10,123**	**9,407**	**10,025**	**9,012**	**9,295**	**8,363**	**8,973**

Section D: Working capital and equity

This section provides information about the operating assets and liabilities available to the Group and the 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:

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		Council	
$million	**2017**	**2016**	**2017**	**2016**
Short-term deposits	260	94	254	90
Cash on hand and on-demand bank deposits	77	43	25	13
Cash and cash equivalents	337	**137**	279	**103**
Bank overdraft	(6)	(9)	-	-
Net cash and cash equivalents	**331**	**128**	**279**	**103**

Unspent funds held by the Group and the council that are subject to restrictions were:

$million	**2017**	**2016**
Group	31	18
Council	-	5

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

D2 Receivables and prepayments

Accounting policy

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

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Current				
Trade receivables	211	176	95	65
Less provision for impairment	(34)	(33)	(18)	(18)
Rates receivables	55	42	56	41
Related party receivables	-	-	106	59
Net receivables	**232**	**185**	**239**	**147**
Accrued income	87	70	10	6
GST receivable	5	-	19	16
Insurance recoveries	3	1	3	1
Prepayments	15	18	8	11
Other	3	1	-	-
Total current	**345**	**275**	**279**	**181**
Receivables from exchange transactions	166	147	92	50
Receivables from non-exchange transactions	179	128	187	131
Non-current				
Rates	3	2	3	2
Insurance recoveries	1	2	1	2
Prepayments	3	3	-	-
Other	2	17	-	12
Total non-current	**9**	**24**	**4**	**16**
Receivables from exchange transactions	6	21	1	14
Receivables from non-exchange transactions	3	3	3	2
Total receivables and prepayments	**354**	**299**	**283**	**197**

Most receivables are non-interest bearing and the carrying value approximates fair value. Ratepayers can apply for payment plan options in special circumstances.

Section D: Working capital and equity

D2 Receivables and prepayments (continued)

Provision for impairment of receivables

Accounting policy

The provision for impairment of receivables is calculated by a review of large specific overdue receivables and a collective assessment of smaller receivables. Assessment is done on an ongoing basis. For the collective assessment, expected losses were determined by a historical analysis of previously incurred losses. Individual debts which are known to be uncollectible are written off.

The carrying amount of receivables that would otherwise be past due or impaired and whose terms have been renegotiated is $12.0 million (2016: $9.8 million) for the Group and the council.

The Group and the council do not hold any security for past due impaired receivables.

The ageing profile of net receivables is as follows:

$million	2017 Gross	2017 Impaired	2017 Net	2016 Gross	2016 Impaired	2016 Net
Group						
Not past due	88	-	88	101	-	101
Past due 1 to 60 days	86	-	86	46	-	46
Past due >60 days	92	(34)	58	71	(33)	38
Total	**266**	**(34)**	**232**	**218**	**(33)**	**185**
Council						
Not past due	136	-	136	100	-	100
Past due 1 to 60 days	65	-	65	30	-	30
Past due >60 days	56	(18)	38	35	(18)	17
Total	**257**	**(18)**	**239**	**165**	**(18)**	**147**

See Note E3 for information on credit risk.

D3 Payables and accruals

Accounting policy

Current payables and accruals 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 are measured at the present value of the estimated future cash outflows.

$million	Group 2017	Group 2016	Council 2017	Council 2016
Current				
Trade payables and accruals	527	485	198	191
Revenue received in advance	42	43	20	21
Deposits and bonds	25	30	22	28
Credit support annex (refer to Note C3)	23	-	23	-
Amounts due to related parties	-	-	350	250
Other	71	49	60	50
Total current	**688**	**607**	**673**	**540**
Payables from exchange transactions	647	560	336	290
Payables from non-exchange transactions	41	47	337	250
Non-current				
Revenue received in advance	39	36	27	22
Other	10	9	-	-
Total non-current	**49**	**45**	**27**	**22**
Payables from exchange transactions	44	45	-	-
Payables from non-exchange transactions	5	-	27	22
Total payables and accruals	**737**	**652**	**700**	**562**

Section D: Working capital and equity

D3 Payables and accruals (continued)

The council's non-current payables and accruals balance includes an obligation for council 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 2017 amounted to $21.7 million (2016: $22.2 million) and is amortised on a straight-line basis over the lease period (70 years), which is 55 years with one right of renewal of 15 years. 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.

Payables and accruals as at 30 June 2017 included $20.5 million relating to the City Rail Link project (CRL), which will be included in the settlement between the Group and City Rail Link Limited (CRLL) as and from 1 July 2017.

The Group and the council's credit support annex of $38 million and the council's related party borrowings of $21 million as at 30 June 2016 were classified under Borrowings.

D4 Employee entitlements

Accounting policy

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

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Current				
Short-term employee benefits	90	86	50	50
Other	5	4	2	3
Total current	**95**	**90**	**52**	**53**
Non-current				
Other	5	5	2	2
Total non-current	**5**	**5**	**2**	**2**
Total employee entitlements	**100**	**95**	**54**	**55**

Employee entitlements as at 30 June 2017 included $0.5 million relating to the CRL, which will be included in the settlement between the Group and CRLL as and from 1 July 2017.

D5 Provisions

Accounting policy

Provisions are recognised in the statement of financial position only where the Group and the council have a present legal or constructive obligation as a result of past event, 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.

Discount rate

The present value of these 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 (2.0% to 4.0%). The Group and the council determined that risk-free rates, as opposed to council's cost of funding rate, appropriately represented the risks specifically related to time value of money (2016: 5.7%).

Section D: Working capital and equity

D5 Provisions (continued)

Group $million	Weather-tightness	Contaminated land and closed landfills	Financial guarantees	Other	Total
Opening balance	257	88	15	31	391
Additional provisions and increases to existing provisions	30	9	27	32	98
Amounts used	(53)	(5)	-	(8)	(66)
Reversal of previously recognised provisions	-	-	-	(11)	(11)
Change in discount rate	21	14	-	1	36
Discount unwind	10	-	-	(2)	8
Balance as at 30 June 2017	**265**	**106**	**42**	**43**	**456**
Current	44	8	-	30	82
Non-current	221	98	42	13	374
Opening balance	276	85	15	32	408
Additional provisions and increases to existing provisions	15	7	-	13	35
Amounts used	(46)	(4)	-	(13)	(63)
Reversal of previously recognised provisions	-	-	-	(1)	(1)
Discount unwind	12	-	-	-	12
Balance as at 30 June 2016	**257**	**88**	**15**	**31**	**391**
Current	73	8	-	20	101
Non-current	184	80	15	11	290

Council $million	Weather-tightness	Contaminated land and closed landfills	Financial guarantees	Other	Total
Opening balance	257	84	15	28	384
Additional provisions and increases to existing provisions	30	7	27	27	91
Amounts used	(53)	(4)	-	(7)	(64)
Reversal of previously recognised provisions	-	-	-	(11)	(11)
Change in discount rate	21	14	-	1	36
Discount unwind	10	-	-	(2)	8
Balance as at 30 June 2017	**265**	**101**	**42**	**36**	**444**
Current	44	8	-	25	77
Non-current	221	93	42	11	367
Opening balance	276	81	15	27	399
Additional provisions and increases to existing provisions	15	6	-	10	31
Amounts used	(46)	(3)	-	(8)	(57)
Reversal of previously recognised provisions	-	-	-	(1)	(1)
Discount unwind	12	-	-	-	12
Balance as at 30 June 2016	**257**	**84**	**15**	**28**	**384**
Current	73	8	-	18	99
Non-current	184	76	15	10	285

Provision for weathertightness

The Group and the council are required to make provision in its accounts for weathertightness claims covering Active, Reported and Unreported claims. The provision comprises of:

Weathertightness disclosure

$million	Multi-unit buildings	Single buildings	Total
Active provision	161	4	165
Reported provision	17	14	31
Unreported provision	59	10	69
Balance as at 30 June 2017	**237**	**28**	**265**
Active provision	140	6	146
Reported provision	30	19	49
Unreported provision	44	18	62
Balance as at 30 June 2016	**214**	**43**	**257**

Section D: Working capital and equity

D5 Provisions (continued)

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

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

Significant judgements and estimates[1] used in calculating provision for weathertightness are:

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

Reported claims
- There are 641 dwellings that are currently reported (489 multi and 152 single) with a discontinuance rate then applied (10% multi and 30% single)

Unreported claims
- Prevalence rates indicate there is an estimated 834 dwellings (770 multi and 64 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 council toward the settlement is 66% for multi and 73% for a single
- Timing of claim payments which is assumed to follow historical trends

[1]These key inputs are provided by the independent actuaries who performed calculations as the basis of the reported provisions.

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

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	**Total**
$million	44	91	59	19	12	12	12	8	6	2	**265**

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

	2017		**2016**	
	10%	**-10%**	**10%**	**-10%**
$million	**Effect on surplus or deficit**		**Effect on surplus or deficit**	
Amount claimed	(26)	26	(25)	25
Council contribution to settlement	(26)	26	(25)	25
Settlement level award	(26)	26	(25)	25
Discontinuance rate	(12)	12	(15)	15

Provision for contaminated land and closed landfills
The Group and the council have provided for sites only where contamination has actually 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 that is considered as unquantifiable contingencies (refer to Note F4).

Section D: Working capital and equity

D5 Provisions (continued)

Significant judgements and estimates[1] used in calculating provision for contaminated land and closed landfills are:

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

[1]These key inputs are provided to the independent actuaries who performed calculations as the basis of the reported provision.

Financial guarantees
The council is listed as a guarantor to loan arrangements for Eden Park Trust Board and a number of community organisations where in the event of default council is obligated to make loan payments.

Until the long-term future of Eden Park is determined, including through ongoing consultation with stakeholders, for the purposes of the calculation of the provision it is assumed the joint security interest held in relation to the guarantee has no determinable value. The Group and the council have fully provided the financial guarantee of $40 million.

Other provisions
Leave entitlement
Included within other provisions is $18 million for the Group and $16 million for the council. This is a provision arising from leave entitlement calculation issues under the Holidays Act 2003 which was disclosed as a contingent liability as at 31 December 2016.

Legal claims
The Group and the council are subject to certain legal claims. For each claim the likelihood of payment has been assessed and provision recognised where it is probable that the Group and the council will be found liable and costs can be reliably estimated. Provisions are based on assessed costs by legal counsel taking into account claims experience. Legal claims that are not recognised as provisions are disclosed as contingent liabilities in Note F4.

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 and liability position excluding restricted reserves at the time the council was formed.

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Contributed equity	**26,728**	**26,728**	**26,569**	**26,569**
Accumulated funds	**951**	**290**	**(824)**	**(633)**
Reserves				
-Asset revaluation reserves				
Opening balance	6,103	4,488	2,787	1,631
Transferred from/(to) accumulated funds	(26)	(7)	(7)	-
Change in fair value recognised during the year	1,468	1,622	-	1,156
Closing balance	7,545	6,103	2,780	2,787

Section D: Working capital and equity

D6 Ratepayer equity (continued)

	Group		Council	
	2017	2016	2017	2016
Reserves				
-Restricted equity and targeted rates				
Opening balance	71	52	67	50
Transfer in/(out) during the year	5	19	5	17
Closing balance	76	71	72	67
-Share of associates' reserves				
Opening balance	451	280	-	-
Change in fair value recognised during the year	2	171	-	-
Closing balance	453	451	-	-
-Available for sale investment revaluation reserve				
Opening balance	12	10	-	-
Change in fair value recognised during the year	11	2	-	-
Closing balance	23	12	-	-
-Cash flow hedge reserve				
Opening balance	(3)	4	-	-
Recycled through surplus or deficit	-	(6)	-	-
Change in fair value recognised during the year	3	(1)	-	-
Closing balance	-	(3)	-	-
Total reserves	**8,097**	**6,634**	**2,852**	**2,854**
Total ratepayer equity	**35,776**	**33,652**	**28,597**	**28,790**

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 LGA 2002 (the Act) requires the council to manage the Group’s revenue, expenses, assets, liabilities and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Ratepayer equity is largely managed as a by-product of managing revenue, expenses, assets, liabilities and general financial dealings.

In addition, the Local Government (Financial Reporting and Prudence) Regulations 2014 sets out a number of benchmarks for assessing whether the council is managing the Group’s revenue, expenses, assets and liabilities prudently. Refer to Section G for the financial reporting and prudence benchmarks of the Group for the year ended 30 June 2017.

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 council's assets and not expecting them to meet the full cost of long-term assets that will benefit ratepayers in future generations.

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

An additional objective of capital management is to ensure that the expenditure needs identified in the Long-term Plan 2015-2025 (LTP) and Annual Budget are met in the manner set out in these plans. The Act requires the council to make adequate and effective provision in the LTP and Annual Budget to meet the expenditure needs identified in those plans. The Act sets out factors that the council is required to consider when determining the most appropriate sources of funding for each of the Group and the council’s activities.

The sources and levels of funding are set out in the funding and financial policies of the LTP. The Group and the council monitor actual expenditure incurred against the LTP 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 2017 and 30 June 2016.

Section D: Working capital and equity

D6 Ratepayer equity (continued)

Local government disclosures

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

$million	Activity	Opening balance	Transfers to reserve	Transfers from reserve	Closing balance	Purpose
Trusts and bequests						
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**	
Reserves and targeted rates						
Araparera Forest Reserve	Roads and footpaths	3	-	-	3	Roading development in the Rodney area
Central City Targeted Rate	Local planning and development	26	22	(17)	31	Development and revitalisation of the city centre
Community Recreation and Sport Fund	Local parks, sports and recreation	3	-	-	3	Sport and recreational group initiatives
Financial Assistance Targeted Rates	Roads and footpaths, stormwater and wastewater	(1)	-	-	(1)	Financial assistance to the local community
Greenmount Park Development Reserve - ARC	Local parks, sports and recreation	3	-	-	3	Conversion of land into a public park and recreation ground
Greenmount Park Development Reserve - AC	Local parks, sports and recreation	9	-	-	9	Development of the Styak-Lushington park
Harbourview / Orangihina UAC reserve	Local parks, sports and recreation	1	-	-	1	Develop the Harbourview-Orangihina Park
Hobsonville Domain Compensation Reserve	Local parks, sports and recreation	2	-	-	2	Hobsonville Domain Replacement project
Manukau Harbour Related Recreational Facilities	Local parks, sports and recreation	2	-	-	2	Improvement of costal recreation opportunities
North Shore Holdings Reserve Fund	Regional parks, sports and recreation and local planning and development	4	-	(1)	3	Projects approved by Auckland Transition Agency and the legacy North Shore City Council
Off Street Parking Funds	Parking and enforcement	10	-	-	10	Off- street parking initiatives
Papakura Golf Course Reserve	Regional parks, sports and recreation	-	3	-	3	Development of Papakura Golf course
Targeted Rates Open Spaces/Volcanic Cones	Regional parks, sports and recreation	3	-	(1)	2	Purchase of open spaces and maintenance and enhancement of volcanic cones
Waste Minimisation Reserve	Solid waste and environmental services	4	-	(1)	3	Ministry for the Environment levies for waste minimisation initiatives
Total reserves and targeted rates		**69**	**25**	**(20)**	**74**	
Total reserve funds		**71**	**25**	**(20)**	**76**	

Section E: Financial risk management

This section provides information on how the Group and the council is exposed to a variety of financial risks and how these risks are managed under the treasury management policies.

The risk management of the Group and the council focuses on financial market uncertainty and seeks to minimise potential adverse effects on the financial performance of the Group and the council.

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

E1 Foreign exchange risk

E2 Interest rate risk

E3 Credit risk

E4 Liquidity risk

Section E: Financial risk management

E1 Foreign exchange risk

Risk exposure
Foreign exchange risk arises as a result of the Group and the council's transactions that are denominated in a currency other than NZD. The NZD may deteriorate against the relevant foreign currency from the period between when the transaction was entered and when foreign currency payments are made.

The council has two offshore borrowing programmes that are exposed to foreign exchange risk with foreign denominated borrowings of $2,661 million at 30 June 2017 (30 June 2016: $1,471 million). Approximately 40% is in Euro (30 June 2016: 19%), 25% in Australian dollar (30 June 2016: 30%), 20% in Swiss franc (30 June 2016: 32%), and 15% in Norwegian krone (30 June 2016: 19%). Refer to Note C1 for the total foreign currency denominated borrowings of the Group and the council.

Risk management
The council manages foreign currency risk of the Group apart from Watercare and POAL. Foreign exchange risk of all entities under the Group is managed through derivative financial instruments. The risk is mitigated by entering into forward foreign currency exchange contracts where the threshold is set by the treasury management policies. The risk on offshore borrowings is offset by cross-currency interest rate swaps over the life of the borrowings. Refer to Note C2 for the derivative financial instruments.

Measurement of risk
At 30 June 2017, 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 (30 June 2016: none).

E2 Interest rate risk

Risk exposure
Interest rate risk is the risk that the Group and the council are exposed to adverse changes in interest rates which will result in net financing costs exceeding Annual Budget or LTP forecasts. The Group and the council are exposed to interest rate risk on all debt obligations and cash investments.

Risk management
The council manages the interest rate risk of the Group apart from Watercare and POAL.

The objective of interest rate risk management is to reduce uncertainty around net finance costs as interest rates change. Mechanisms used are:

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

As at 30 June 2017, the Group and the council have the following forward start swaps:

Group

$million	**Financial year**						
Effective start date	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Term							
2 years	-	10	-	-	-	-	-
4 years	55	-	-	-	-	-	-
5 years	-	-	150	15	50	50	205
7 years	325	375	150	200	300	450	200
8 years	20	-	-	-	-	-	-
9 years	20	-	-	-	30	-	-
10 years	150	115	100	50	80	-	-
Total	**570**	**500**	**400**	**265**	**460**	**500**	**405**
Average rate	4.81%	4.27%	4.15%	3.87%	4.17%	3.60%	3.80%

Section E: Financial risk management

E2 Interest rate risk (continued)

Council

$million			Financial year				
Effective start date	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Term							
5 years	-	-	150	-	50	50	205
7 years	325	375	150	200	300	450	200
10 years	150	75	100	50	-	-	-
Total	**475**	**450**	**400**	**250**	**350**	**500**	**405**
Average rate	4.74%	4.19%	4.15%	3.76%	3.98%	3.60%	3.80%

The tables above outline the notional values of forward-start swaps the Group and the council entered into, the financial year in which they become effective and the terms from the start date.

As at 30 June 2017, the Group has the following interest rate options:

$million	**2017**			**2016**		
Interest rate options	**Notional value**	**Cap rate**	**Floor rate**	**Notional value**	**Cap rate**	**Floor rate**
4 to 5 years	50	5.25%	4.35%	-	-	-
Beyond 5 years	-	-	-	50	5.25%	4.35%

Risk measurement
The council's Treasury Management Policy contains the interest rate exposure policy giving the basis for how compliance is measured.

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

	Group				**Council**			
	-100bps/-1%		**+100bps/+1%**		**-100bps/-1%**		**+100bps/+1%**	
$million	**Surplus/ (deficit)**	**Equity**	**Surplus/ (deficit)**	**Equity**	**Surplus/ (deficit)**	**Equity**	**Surplus/ (deficit)**	**Equity**
2017								
Cash and cash equivalents and term deposits	(3)	-	3	-	(3)	-	3	-
Derivative financial instruments[1]	(292)	(6)	254	6	(211)	-	179	-
Loans to related parties	-	-	-	-	(12)	-	12	-
Fixed rate borrowings (repricing within next 12 months)	5	-	(5)	-	5	-	(5)	-
Floating rate borrowings	30	-	(30)	-	25	-	(25)	-
Other financial assets	(1)	-	1	-	(1)	-	1	-
Total sensitivity to interest rate risk	**(261)**	**(6)**	**223**	**6**	**(197)**	**-**	**165**	**-**
2016								
Cash and cash equivalents and term deposits	(1)	-	1	-	(1)	-	1	-
Derivative financial instruments[1]	(390)	(6)	352	6	(290)	-	261	-
Loans to related parties	-	-	-	-	(10)	-	10	-
Fixed rate borrowings (repricing within next 12 months)	5	-	(5)	-	2	-	(2)	-
Floating rate borrowings	28	-	(28)	-	25	-	(25)	-
Other financial assets	(1)	-	1	-	(1)	-	1	-
Total sensitivity to interest rate risk	**(359)**	**(6)**	**321**	**6**	**(275)**	**-**	**246**	**-**

[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

E2 Interest rate risk (continued)

The council entered into basis swaps in 2017 as a strategy to lower funding costs. The basis swaps have been used to partially hedge the basis risk on cross-currency interest rate swaps which has resulted in lower interest costs on foreign currency borrowings.

Forward rate agreements have been used to fix short-term forward rates on the basis swaps.

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 points is a $12 million loss while a decrease in the basis spread of 10 points is a $12 million gain. The basis sensitivity on this basis spread was calculated by taking the spot basis spread curve and moving this by the reasonably possible movement of plus and minus 10 basis points.

E3 Credit risk

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

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

In addition to the above credit exposures, the Group and the council are exposed to financial guarantees issued to related parties and various other organisations. At 30 June 2017, total financial guarantees for the Group are $5.6 billion (2016: $4.4 billion) and $5.9 billion for the council (2016: $4.8 billion). Certain guarantees have been provided for as disclosed in the provisions note. Refer to Notes D5 and F4 for further information.

Risk management
The council manages the credit risk of the Group apart from Watercare and POAL. To safeguard against loss through poor credit quality, minimum limits per counterparty are applied.

The Group and the council minimises credit risk by transacting all cash management, fixed interest investment, interest rate risk management and foreign exchange activity with counterparties that are of high credit quality as determined by international credit rating agencies (e.g. Standard & Poor's, Moody's or Fitch Ratings). This policy enables higher dollar value exposures to parties assessed by rating agencies as being most able to meet their obligations. The only unrated counterparties that the Group and the council may invest in are other New Zealand local government bodies.

In addition to the above, the Group and the council are exposed to counterparty credit risk through its derivative contracts. The council has mitigated this risk by entering into CSA agreements with certain counterparties which reduces credit exposure to that counterparty by collaterising mark-to-market positions. Refer to Note C3 for further information.

The Group and the council hold unit trust assets of $217 million (2016: $270 million). These unit trusts are comprised of portfolios of debt and equity investments managed by fund managers on behalf of the council. Together with the Group's statement of investment policies and objectives, the Group and the council ensure prudent management of a well-diversified portfolio of assets.

Concentration of credit risk
The Group and the council are not exposed to material concentration 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. Refer to Note D2 for the breakdown and ageing profile of receivables.

Section E: Financial risk management

E3 Credit risk (continued)

The council identifies concentration risk in relation to loans to related parties based on the capital programme of the related parties driven by the LTP. Loans to Auckland Transport and Watercare amounted to $509 million and $1,302 million, respectively (2016: $496 million and $1,133 million).

Risk measurement
Rated counterparties
At balance date, $591 million (2016: $514 million) of assets with credit risk held by the Group and $1.8 billion (2016: $1.6 billion) of assets with credit risk held by the council have a Standard & Poor's rating (or equivalent) of single A or better.

There have been no defaults by any of the Group and the council's rated counterparties.

Unrated counterparties
Unrated counterparties that the Group and the council may invest in are other New Zealand local government bodies.

The council's unit trust holdings do not have credit ratings at a portfolio level; however, the management of the unit trust assets are subject to internal operational investment policies and an objectives document. This document details the investment strategy, liquidity rules, performance goals and responsibilities of participants.

No unrated counterparties have defaulted in the past with the exception of certain community loans within other financial assets. In the year to 30 June 2017 the Group and the council have no community loan counterparties that defaulted (2016: nil).

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 ratings.

E4 Liquidity risk

Risk exposure
Liquidity risk is the risk that the Group and the council will encounter difficulty raising funds to meet commitments as they fall due.

Risk management
The council manages the liquidity risk of the Group except for POAL and certain aspects relating to Watercare. Where the council has a long-term or ongoing need for core borrowings, lengthy borrowing terms are attractive as they eliminate short-term liquidity risk (the risk of not being able to roll over short-term debt as it matures).

Borrowings are maintained in accordance with treasury policies including liability management policies. The diversification of borrowings and limits on the level of debt maturing at any point in time mitigates exposure to both concentration and refinancing risks.

The Group and the council also use committed bank facilities and set-off arrangements to manage its liquidity risk. Overdraft facilities of $12 million (2016: $22 million) and undrawn bank facilities of $1.5 billion (2016: $1.1 billion) will mature between July 2018 and July 2020. The undrawn bank facilities include council's syndicated committed cash advance facility of $1.0 billion (2016: $800 million) which can be drawn at any time.

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

Section E: Financial risk management

E4 Liquidity risk (continued)

Group	2017								2016							
$million	Carrying amount	On demand	<1 year	1-2 years	2-5 years	5-10 years	>10 years	Total contractual cash flows	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	337	332	6	-	-	-	-	338	137	132	5	-	-	-	-	137
Receivables (excluding prepayments)	331	35	294	3	-	-	-	332	279	21	237	21	-	-	-	279
Other financial assets	417	275	42	22	38	37	22	436	517	349	77	18	46	20	19	529
Total Non-derivative financial assets	**1,085**	**642**	**342**	**25**	**38**	**37**	**22**	**1,106**	**933**	**502**	**319**	**39**	**46**	**20**	**19**	**945**
Derivative financial assets																
Derivative financial assets net settled	59	-	20	13	13	17	14	77	57	-	14	16	31	9	-	70
Derivative financial assets gross settled[1]	111	-	(30)	(38)	(149)	(169)	(84)	(470)	206	-	(10)	(10)	(34)	(27)	(66)	(147)
Inflows		-	35	60	72	1,502	332	2,001		-	25	24	73	864	263	1,249
Outflows		-	(65)	(98)	(221)	(1,671)	(416)	(2,471)		-	(35)	(34)	(107)	(891)	(329)	(1,396)
Total derivative financial assets	**170**	**-**	**(10)**	**(25)**	**(136)**	**(152)**	**(70)**	**(393)**	**263**	**-**	**4**	**6**	**(3)**	**(18)**	**(66)**	**(77)**
Total financial assets	**1,255**	**642**	**332**	**-**	**(98)**	**(115)**	**(48)**	**713**	**1,196**	**502**	**323**	**45**	**43**	**2**	**(47)**	**868**
Non-derivative financial liabilities																
Bank overdraft	6	6	-	-	-	-	-	6	9	9	-	-	-	-	-	9
Payables and accruals (excluding income received in advance)	656	76	578	2	-	-	-	656	573	40	532	1	-	-	-	573
Secured borrowings	7,704	-	1,206	782	2,514	3,758	961	9,221	6,919	-	1,389	883	2,625	2,258	1,036	8,191
Unsecured borrowings	596	-	165	282	174	-	-	621	691	-	318	64	347	-	-	729
Financial guarantees[2]	42	5,580	-	-	-	-	-	5,580	16	4,369	-	-	-	-	-	4,369
Total non-derivative financial liabilities	**9,004**	**5,662**	**1,949**	**1,066**	**2,688**	**3,758**	**961**	**16,084**	**8,208**	**4,418**	**2,239**	**948**	**2,972**	**2,258**	**1,036**	**13,871**
Derivative financial liabilities																
Derivative financial liabilities net settled	762	-	170	149	321	244	45	929	1,175	1	119	165	500	509	99	1,393
Derivative financial liabilities gross settled[1]	110	-	3	5	82	96	102	288	40	(2)	(5)	1	7	74	72	147
Inflows		-	(185)	(39)	(333)	(356)	(639)	(1,552)		(33)	(95)	(25)	(58)	(303)	(339)	(853)
Outflows		-	188	44	415	452	741	1,840		31	90	26	65	377	411	1,000
Total derivative financial liabilities	**872**	**-**	**173**	**154**	**403**	**340**	**147**	**1,217**	**1,215**	**(1)**	**114**	**166**	**507**	**583**	**171**	**1,540**
Total financial liabilities	**9,876**	**5,662**	**2,122**	**1,220**	**3,091**	**4,098**	**1,108**	**17,301**	**9,423**	**4,417**	**2,353**	**1,114**	**3,479**	**2,841**	**1,207**	**15,411**
Net contractual cash flows	**(8,621)**	**(5,020)**	**(1,790)**	**(1,220)**	**(3,189)**	**(4,213)**	**(1,156)**	**(16,588)**	**(8,227)**	**(3,915)**	**(2,030)**	**(1,069)**	**(3,436)**	**(2,839)**	**(1,254)**	**(14,543)**

[1] Includes both forward foreign exchange contracts and cross-currency interest rate swaps; the foreign currency leg of the cash flows is translated at the spot rate as at 30 June.
[2] 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 as it is not anticipated that the guarantee will become payable.

Section E: Financial risk management

E4 Liquidity risk (continued)

Council	2017								2016							
$million	Carrying amount	On demand	<1 year	1-2 years	2-5 years	5-10 years	>10 years	Total contractual cash flows	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	279	280	-	-	-	-	-	280	103	103	-	-	-	-	-	103
Receivables (excluding prepayments)	256	-	256	-	-	-	-	256	186	-	170	16	-	-	-	186
Other financial assets	2,175	236	198	184	608	907	1,103	3,236	2,126	320	249	165	640	604	1,423	3,401
Total Non-derivative financial assets	**2,710**	**516**	**454**	**184**	**608**	**907**	**1,103**	**3,772**	**2,415**	**423**	**419**	**181**	**640**	**604**	**1,423**	**3,690**
Derivative financial assets																
Derivative financial assets net settled	51	-	16	12	10	15	14	67	49	-	12	14	28	6	-	60
Derivative financial assets gross settled[1]	110	-	(30)	(38)	(149)	(169)	(84)	(470)	206	-	(9)	(9)	(34)	(27)	(66)	(145)
Inflows		-	25	24	72	1,502	332	1,955		-	31	25	73	864	263	1,256
Outflow		-	(55)	(62)	(221)	(1,671)	(416)	(2,425)		-	(40)	(34)	(107)	(891)	(329)	(1,401)
Total derivative financial assets	**161**	**-**	**(14)**	**(26)**	**(139)**	**(154)**	**(70)**	**(403)**	**255**	**-**	**3**	**5**	**(6)**	**(21)**	**(66)**	**(85)**
Total financial assets	**2,871**	**516**	**440**	**158**	**469**	**753**	**1,033**	**3,369**	**2,670**	**423**	**422**	**186**	**634**	**583**	**1,357**	**3,605**
Non-derivative financial liabilities																
Payables and accruals (excluding income received in advance)	653	-	653	-	-	-	-	653	519	-	519	-	-	-	-	519
Secured borrowings	7,704	-	1,206	782	2,514	3,758	961	9,221	6,919	-	1,389	883	2,625	2,258	1,036	8,191
Unsecured borrowings	-	-	-	-	-	-	-	-	21	-	21	-	-	-	-	21
Financial guarantees[2]	42	5,883	-	-	-	-	-	5,883	16	4,813	-	-	-	-	-	4,813
Total non-derivative financial liabilities	**8,399**	**5,883**	**1,859**	**782**	**2,514**	**3,758**	**961**	**15,757**	**7,475**	**4,813**	**1,929**	**883**	**2,625**	**2,258**	**1,036**	**13,544**
Derivative financial liabilities																
Derivative financial liabilities net settled	550	-	122	110	222	136	21	611	867	-	83	121	371	363	58	996
Derivative financial liabilities gross settled[1]	105	-	(3)	5	82	96	102	282	36	-	8	1	7	74	72	162
Inflows		-	(139)	(39)	(333)	(356)	(639)	(1,506)		-	(120)	(20)	(58)	(303)	(339)	(840)
Outflows		-	136	44	415	452	741	1,788		-	128	21	65	377	411	1,002
Total derivative financial liabilities	**655**	**-**	**119**	**115**	**304**	**232**	**123**	**893**	**903**	**-**	**91**	**122**	**378**	**437**	**130**	**1,158**
Total financial liabilities	**9,054**	**5,883**	**1,978**	**897**	**2,818**	**3,990**	**1,084**	**16,650**	**8,378**	**4,813**	**2,020**	**1,005**	**3,003**	**2,695**	**1,166**	**14,702**
Net contractual cash flows	**(6,183)**	**(5,367)**	**(1,538)**	**(739)**	**(2,349)**	**(3,237)**	**(51)**	**(13,281)**	**(5,708)**	**(4,390)**	**(1,598)**	**(819)**	**(2,369)**	**(2,112)**	**191**	**(11,097)**

[1] Includes both forward foreign exchange contracts and cross-currency interest rate swaps; the foreign currency leg of the cash flows is translated at the spot rate as at 30 June.
[2] 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 as it is not anticipated that the guarantee will become payable.

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 parties' transactions".

The notes included in this section are as follows:

F1 Non-current assets held for sale

F2 Deferred tax assets and liabilities

F3 Investment in other entities

F4 Contingencies, commitments and subsequent events

F5 Related party transactions

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

F7 City Rail Link project

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.

Any impairment losses for write-downs are recognised in the surplus or deficit.

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		Council	
$million	**2017**	**2016**	**2017**	**2016**
CRL project assets (Note F7)	217	-	-	-
Land and buildings	99	37	39	32
Other	16	6	1	-
Non-current assets held for sale	**332**	**43**	**40**	**32**

Land and buildings include a property previously classified as investment property by POAL, that was transferred to non-current assets held for sale, as it is subject to a sale and purchase agreement. POAL has received notices from NZTA to acquire the Port of Onehunga and Pikes Point properties under the Public Works Act 1981 for use in the construction of East-West Link.

An impairment loss of $5.2 million for the Group and $4.7 million for the council in 2017 was recognised under "net other gains and losses" for write-down of land and buildings and other assets.

F2 Deferred tax assets and liabilities

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

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Deferred tax assets				
-to be recovered >12 months	12	8	-	-
-to be recovered within 12 months	5	3	-	-
Deferred tax liabilities				
-to be recovered >12 months	(1,129)	(1,066)	-	-
-to be recovered within 12 months	-	-	-	-
Net deferred tax liabilities	**(1,112)**	**(1,055)**	**-**	**-**

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	(1,370)	(2)	76	241	(1,055)
Credited/(charged) to surplus/(deficit)	(41)	(1)	(26)	12	(56)
Credited/(charged) to other comprehensive revenue	-	-	(1)	-	(1)
Balance at 30 June 2017	**(1,411)**	**(3)**	**49**	**253**	**(1,112)**
Opening balance	(1,323)	-	41	215	(1,067)
Credited/(charged) to surplus/(deficit)	(43)	(2)	33	26	14
Credited/(charged) to other comprehensive revenue	(4)	-	2	-	(2)
Balance at 30 June 2016	**(1,370)**	**(2)**	**76**	**241**	**(1,055)**

Section F: Other disclosures

F3 Investment in other entities

$million	Group 2017	Group 2016	Council 2017	Council 2016
Investment in subsidiaries	-	-	21,068	21,080
Investment in associates	1,080	1,056	2	1
Investment in joint ventures	16	18	14	13
Total Investment in other entities	**1,096**	**1,074**	**21,084**	**21,094**

Investment in subsidiaries
Investment in subsidiaries includes the investment in CCOs (refer to section H for list of CCOs). Ports of Auckland, port owner and operator and is 100% owned by the council.

Investment in joint ventures and associates

Accounting policy

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

The Group and council hold investment in the following joint ventures and associates as at 30 June 2017:

Entity	Held by	Relationship	Interest 2017	Interest 2016	Nature
North Tugz Ltd	Group	Joint venture	50.00%	50.00%	Towage and pilotage services
PortConnect Ltd	Group	Joint venture	50.00%	50.00%	Online Cargo management system
Longburn Intermodal Freight Hub Ltd	Group	Associate	33.30%	33.30%	Inland Freight distribution hub
Auckland International Airport Ltd (AIAL)	Group	Associate	22.33%	22.38%	Airport
City Rail Link Limited (Note F7)	Council	Jointly controlled entity	50.00%	-	Design and construction of CRL
Waste Disposal Services Ltd	Council	Joint venture	50.00%	50.00%	Landfill business
Haumaru Housing Limited Partnership (Haumaru)	Council	Joint venture	49.00%	-	Social rental housing for older people in Auckland
New Zealand Food Innovation Auckland Ltd	Council	Joint venture	33.30%	33.30%	Science and Technology Resources centre
New Lynn Central Ltd Partnership	Council	Associate	42.00%	42.00%	Property development
Tamaki Redevelopment Company Ltd	Council	Associate	41.00%	41.00%	Property development

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

The council has signed a funding agreement with Haumaru effective 1 July 2017, whereby the council will provide a total funding of $30 million. This funding will be provided in annual allocations up to 30 June 2025. The funding provided will be used by Haumaru solely for capital renewals of the HfOP portfolio.

Section F: Other disclosures

F3 Investment in other entities (continued)

The Group's significant associate is AIAL and its key financial information is as follows:

$million	Total assets	Total liabilities	Gross revenue	Net profit after tax	Percentage of interest held
As at 30 June 2017					
Auckland International Airport Ltd	6,504	2,475	629	333	22.33%
As at 30 June 2016					
Auckland International Airport Ltd	6,142	2,261	574	262	22.38%

The fair value of the Group's investment in AIAL is $1.9 billion (2016: $1.7 billion).

The amounts presented are gross amounts taken directly from AIAL's financial statements. No adjustments have been made for differences in accounting policies adopted by the Group and the council.

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.
- Contingent assets are only disclosed when the possibility that these will crystallise is probable.

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

Quantifiable contingent liabilities

	Group		Council	
$million	2017	2016	2017	2016
Guarantees and indemnities	5,538	4,353	5,841	4,797
Uncalled capital	2	2	2	2
Legal proceedings and disputes	3	8	3	8
Total quantifiable contingent liabilities	**5,543**	**4,363**	**5,846**	**4,807**

a. Guarantees and indemnities

New Zealand Local Government Funding Agency (LGFA)

The council is a shareholder and guarantor of the LGFA. The LGFA was incorporated in December 2011 with the purpose of providing debt funding to local authorities in New Zealand and it has a current credit rating from Standard & Poor's of AA+ (stable).

As a guarantor
The council is one of 44 local authority guarantors of the LGFA. The LGFA's loans to local authorities are $7.9 billion (2016: $6.5 billion), of which the Group and the council have borrowed $2.4 billion (2016: $2.1 billion). As a result, the Group and the council's cross-guarantee on LGFA's loans to other local authorities is $5.5 billion (2016: $4.4 billion).

Section F: Other disclosures

F4 Contingencies, commitments and subsequent events (continued)

Quantifiable contingent liabilities (continued)

PBE Accounting Standards require the Group and the council to recognise the guarantee liability at fair value. However, the Group and the council have been unable to determine a sufficiently reliable fair value for the guarantee, and therefore has not recognised a liability. The Group and the council consider the risk of the LGFA defaulting on repayment of interest or capital to be very low on the basis that:

- the council is not aware of any local authority debt default events in New Zealand
- local government legislation would enable local authorities to levy rate to recover sufficient funds to meet any debt obligations if further funds were required.

Watercare Services Ltd

The council has provided a guarantee for certain Watercare borrowings. At 30 June 2017, the borrowings for which this guarantee is provided totalled $303 million (2016: $444 million).

b. Uncalled capital

LGFA
The council is one of 31 shareholders of the LGFA. In that regard it has uncalled capital of $2 million (2016: $2 million). When aggregated with the uncalled capital of other shareholders, $20 million is available in the event that an imminent default is identified.

c. 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.

Unquantifiable contingent liabilities

Contaminated land

- It is likely that further sites will be identified over time and should testing confirm contamination, the Group and the council will be obliged to undertake remedial action.
- A significant degree of estimation has been involved to calculate the provision; as a result the Group and the council may be subject to further liability that is not currently recognised.
- Provision on contaminated land is provided in Note D5.

Weathertightness

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

Carter Colt Harvey (CHH)

In April 2013, the Ministry of Education (MOE) initiated High Court proceedings against Carter Holt Harvey (CHH) and others alleging inherent defects in the cladding sheets and cladding systems manufactured and

Section F: Other disclosures

F4 Contingencies, commitments and subsequent events (continued)

Unquantifiable contingent liabilities (continued)

Carter Colt Harvey (CHH) (continued)	prepared by CHH. Subsequently, in December 2016, CHH commenced third party proceedings against 48 Councils, including the council alleging a breach of duty in the processing of building consents, undertaking building inspections and issuing Code Compliance Certificates. The Councils have applied for orders setting aside and striking out CHH's claims against them. The MOE's claim against CHH is for 833 school buildings, 44 of which are located within Auckland, and at present there is insufficient information to conclude on potential liability and claim quantum, if any.
Snapper Services Ltd	Auckland Transport has been advised of a potential claim by Snapper Services Ltd against Auckland Transport in relation to the Auckland Integrated Fare System. Auckland Transport has prepared a claim against Snapper. Legal proceedings have not been issued by either party.
Legal proceedings and disputes	The council is in negotiations with a rate payer who has brought judicial review proceedings challenging the validity of the rates assessments and setting of penalties for its properties for the ratings years 2009/2010 to 2017/2018. In addition to challenging the ratings differentials applied to assess the rates, the plaintiff seeks an order quashing all penalties for each rating year on the basis that the penalties resolutions do not comply with the statutory requirements. The council has filed a statement of defence. The first Case Management Conference is scheduled for 28 September. The parties are continuing settlement discussions.

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 2154). No estimate has been made of the financial effect of this transaction due to the long period involved. The 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 Capital Beneficiary of the Auckland Energy Consumer Trust (AECT) when the Trust terminates on 27 August 2073. • As at 30 June 2017 the Group and the council are not able to reliably estimate the value of any future benefit that may result from this arrangement.
Robertson art donation	A binding agreement was established in 2009 by Julian and Josie Robertson (the donors) to donate certain works of art owned by them to the Group for display in the Auckland Art Gallery. The donors currently hold the works of art for their own and others' enjoyment, therefore the Group will only gain possession of the artworks on the contribution date specified in the agreement. At this point, the Group is unable to measure the right to receive assets reliably due to the uncertainty in the timing of the donation and certain restrictions set out in the agreement.
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.

Section F: Other disclosures

F4 Contingencies, commitments and subsequent events (continued)

COMMITMENTS

Capital commitments

Capital commitments relate to obligations which the Group and 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 and council capital commitments are as follows:

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Property, plant and equipment				
CRL project (Note F7)	324	185	-	-
Roading networks	218	414	-	-
Water and wastewater	211	221	-	-
Operational land and buildings	115	68	96	44
Other operational assets	105	82	52	29
Rolling stock	-	15	-	-
Restricted improvements	38	33	38	33
Stormwater	54	47	69	50
Restricted parks, reserves and buildings	5	6	5	6
Wharves	5	1	-	-
Marina structures	-	1	-	-
Total property, plant and equipment	1,075	1,073	260	162
Intangible assets	17	36	8	11
Total capital commitments	**1,092**	**1,109**	**268**	**173**

135 Albert Street recladding

The main contractor has completed enabling works and re-cladding works are now progressing. The project is running on time and is due to be completed in the first quarter of 2019. No lost time or serious harm injuries have occurred on the project.

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 (2016: 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		Council	
$million	**2017**	**2016**	**2017**	**2016**
Minimum operating lease payments payable				
Not later than one year	58	24	11	10
Later than one year and not later than five years	203	65	28	29
Later than five years	208	36	4	3
Total minimum operating lease payments payable	**469**	**125**	**43**	**42**

Leases can 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.

Section F: Other disclosures

F4 Contingencies, commitments and subsequent events (continued)

Contingent rents of $2 million have been recognised during the year for the Group and the council (2016: $2 million). The total future sublease payments expected to be received under non-cancellable subleases at balance date is $4 million for the Group and the council (2016: $5 million).

The Group and the council as lessor

Accounting policy

The Group and the council lease certain property, plant and equipment to third parties including land and buildings and some commercial and residential property. The leases have non-cancellable periods ranging from 1 month to 100 years (2016: 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		Council	
$million	**2017**	**2016**	**2017**	**2016**
Minimum operating lease payments receivable				
Not later than one year	42	43	14	17
Later than one year and not later than five years	107	100	33	39
Later than five years	226	247	181	190
Total minimum operating lease payments receivable	**375**	**390**	**228**	**246**

Contingent rent recognised during the year amounted to $0.3 million (2016: $0.6 million) for the Group and the council.

SUBSEQUENT EVENTS

Housing Infrastructure Fund

In July 2017, the Crown announced $300 million of new funding through the Housing Infrastructure Fund (HIF) that will unlock new housing development in Auckland's north-west through investment in transport, wastewater and stormwater projects earmarked as priority, fast-track initiatives.

The Crown subsequently announced $600 million network infrastructure for housing developments through Crown Infrastructure Partners, previously Crown Fibre holdings, with a purpose of setting up special purpose companies to build and own new trunk infrastructure for housing developments, Two of the earliest projects to be assessed by Crown Infrastructure Partners for investment will be the Auckland North and Auckland South projects previously submitted by the council through HIF bid submission process.

The impact of the Crown's announcement on housing infrastructure to the Group and the council's results and financial position is dependent on finalising the terms of agreements.

City Rail Link Project

Subsequent to balance sheet date, City Rail Link Limited (CRLL) obtained the necessary authority to assume responsibility of the CRL project and the Crown's commitments came into effect (refer to Note F7).

There were no other material events after reporting date which would require adjustment or disclosure for the Group and the council.

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.

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.

Transactions were entered into and year end balances arose from transactions with related parties include key management remuneration.

Key management personnel remuneration

Key management remuneration comprises of the total remuneration paid to the mayor, councillors, chief executive and executive leadership team.

	Council	
$	**2017**	**2016**
Mayor and councillors		
Remuneration	2,515,781	2,537,190
Total Mayor and councillors	**2,515,781**	**2,537,190**
Payments during the year to the chief executive		
-Salary and other short-term employee benefits	669,903	636,744
-Post-employment benefit (Kiwi saver contributions)	20,097	19,102
Total chief executive remuneration	**690,000**	**655,846**
Executive leadership team		
-Salary and other short-term employee benefits	3,944,887	3,731,878
-Post-employment benefit (Kiwi saver contributions)	108,840	93,081
-Termination benefits	405,739	-
Total executive leadership team remuneration	**4,459,466**	**3,824,959**
Total key management personnel remuneration	**7,665,247**	**7,017,995**

Key management personnel comprise 40 individuals. With the Local Government election held on 8 October 2016, the 21 full time equivalent (FTE) elected members have changed. Thus, from 1 July 2016 to 30 June 2017, the total number of elected members is 27, with 6 new elected members, and 6 elected members leaving during the financial year. Also included are 13 executive leaders with two executive leaders leaving during the financial year and one new executive leader being appointed during the financial year (12 FTE).

Local government disclosures

Employee numbers and remuneration bands

	Group		Council	
Full-time equivalent	**2017**	**2016**	**2017**	**2016**
Full-time employees	8,927	8,743	5,299	5,302
Part time employees (full-time equivalent)	1,136	1,127	792	800
Total full-time equivalent	**10,063**	**9,870**	**6,091**	**6,102**

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 the band, they are combined upwards with the next banding as stipulated in the LGA 2002.

Section F: Other disclosures

F5 Related party transactions (continued)

Local government disclosures (continued)

Employee numbers and remuneration bands (continued)

Group

Number of employees	2017	Number of employees	2016
<$60,000	5,399	<$60,000	5,279
$60,000-$79,999	2,380	$60,000-$79,999	2,474
$80,000-$99,999	1,864	$80,000-$99,999	1,790
$100,000-$119,999	1,022	$100,000-$119,999	965
$120,000-$139,999	556	$120,000-$139,999	484
$140,000-$159,999	261	$140,000-$159,999	242
$160,000-$179,999	132	$160,000-$179,999	121
$180,000-$199,999	85	$180,000-$199,999	81
$200,000-$219,999	54	$200,000-$219,999	43
$220,000-$239,999	43	$220,000-$239,999	24
$240,000-$259,999	28	$240,000-$259,999	19
$260,000-$279,999	9	$260,000-$279,999	14
$280,000-$299,999	21	$280,000-$299,999	19
$300,000-$319,999	8	$300,000-$319,999	10
$320,000-$339,999	7	$320,000-$339,999	8
$340,000-$359,999	6	$340,000-$399,999	6
$360,000-$419,999	7	$400,000-$459,999	6
$420,000-$479,999	6	$460,000-$819,999	6
$480,000-$899,999	5		
Total number of employees	**11,893**		**11,591**

Council

Number of employees	2017	Number of employees	2016
<$60,000	3,412	<$60,000	3,394
$60,000-$79,999	1,494	$60,000-$79,999	1,601
$80,000-$99,999	1,163	$80,000-$99,999	1,134
$100,000-$119,999	566	$100,000-$119,999	550
$120,000-$139,999	277	$120,000-$139,999	231
$140,000-$159,999	128	$140,000-$159,999	120
$160,000-$179,999	67	$160,000-$179,999	65
$180,000-$199,999	40	$180,000-$199,999	34
$200,000-$219,999	20	$200,000-$219,999	16
$220,000-$239,999	17	$220,000-$239,999	10
$240,000-$259,999	12	$240,000-$259,999	6
$260,000-$299,999	12	$260,000-$299,999	11
$300,000-$339,999	6	$300,000-$339,999	6
$340,000-$699,999	6	$340,000-$699,999	6
Total number of employees	**7,220**		**7,184**

Severance payments

For the year ended 30 June 2017, the council made 28 severance payments to employees totalling $976,226 (30 June 2016: 17 payments totalling $726,910)

The values of each severance payment were $405,739; $68,202; $58,266; $51,354; $43,691; $41,171; $33,053; $30,033; $25,701; $22,364; $18,000; $17,500; $16,146; $15,648; $15,000; $14,357; $12,608; $12,480; $10,224; $10,085; $10,000; $8,561; $7,949; $7,692; $6,902; $6,000; $4,500; $3,000.

Section F: Other disclosures

F5 Related party transactions (continued)

Local government disclosures (continued)

In addition to the above, for the year ended 30 June 2017, other members of the Group made 19 severance payments to employees totalling $772,557 (30 June 2016: 8 payments totalling $229,581).

The values of each of the severance payments made by other members of the Group were $275,000; $120,000; $96,519; $50,000; $43,333; $25,225; $20,000; $18,095; $17,332; $16,329; $15,833; $13,767; $12,384; $10,223; $10,000; $9,375; $8,257; $8,000; $2,885.

Refer to schedule 10 clause 33 of the LGA 2002 for the definition of severance payments.

Mayor, councillor and local board members' remuneration

Remuneration Authority determines the remuneration to be paid to the Mayor, councillors and Local Board members. The Local Government Elected Members (2016/17) (Auckland Council and Local Boards) Determination 2016 detailed the rates which apply from 1 July 2016 to 30 June 2017.

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

	Council	
$	**2017**	**2016**
Mayor		
Hon Phil Goff, CNZM, JP	181,394	-
Len Brown, JP	87,967	265,339
Councillors		
Arthur Anae	34,535	104,187
Cameron Brewer	34,535	104,187
Dr Cathy Casey	105,746	104,187
Bill Cashmore	136,210	104,187
Ross Clow	117,551	104,187
Fa'anānā Efeso Collins	71,212	-
Linda Cooper, JP	105,746	104,187
Chris Darby	117,551	104,187
Alf Filipaina	105,746	104,187
Hon Christine Fletcher, QSO*	123,513	157,487
Richard Hills	71,212	-
Penny Hulse	132,582	149,509
Denise Lee	108,033	101,900
Mike Lee*	123,513	157,487
Daniel Newman, JP	71,212	-
Calum Penrose	34,535	104,187
Dick Quax	105,746	104,187
Greg Sayers	71,212	-
Desley Simpson, JP	71,212	-
Sharon Stewart, QSM	105,746	104,187
Sir John Walker, KNZM,CBE	105,746	104,187
Wayne Walker	105,746	104,187
John Watson	105,746	104,187
Penny Webster	40,916	123,425
George Wood, CNZM	40,916	123,425
Total mayor and councillor remuneration	**2,515,779**	**2,537,190**

*Christine Fletcher and Mike Lee were paid $105,746 each by the council as elected member (2016: $104,187 each) and $17,767 each by Auckland Transport as directors (2016: $53,300).

Section F: Other disclosures

F5 Related parties transactions (continued)

Local government disclosures (continued)

Local board members' remuneration

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

$	2017	2016	$	2017	2016
Albert-Eden			**Devonport- Takapuna**		
Helga Arlington	13,953	42,054	Joseph Bergin	25,412	76,620
Lee Corrick	42,727	42,054	Mike Cohen, QSM, JP	41,779	41,146
Graeme Easte	42,727	44,214	Dr Grant Gillon	65,073	41,146
Glenda Fryer	49,995	51,754	Dianne Hale, QSO, JP	13,645	41,146
Peter Haynes	86,215	86,606	Jennifer McKenzie	28,135	-
Rachel Langton	42,727	42,054	Jan O'Connor	41,779	41,146
Benjamin Lee	28,774	-	Allison Roe, MBE	14,960	39,831
Jessica Rose	28,774	-	Michael Sheehy	28,135	-
Margi Watson	42,727	42,054	George Wood,CNZM	28,135	-
Tim Woolfield	13,953	42,054			
Total	**392,572**	**392,844**	**Total**	**287,053**	**281,035**
Franklin			**Great Barrier**		
Andrew Baker	101,066	121,138	Jeff Cleave	23,338	22,979
Malcolm Bell	41,079	40,441	Luke Coles	15,716	-
Alan Cole	41,079	40,441	Susan Daly	23,338	22,979
Brendon Crompton	41,079	40,441	Izzy Fordham	52,218	52,581
Sharlene Druyven	27,663	-	Judy Gilbert	7,622	22,979
Angela Fulljames	65,407	40,441	Shirley Johnson	15,716	-
Sarah Higgins	7,883	40,441	Christina Spence	7,622	22,979
Amanda Hopkins	27,663	-			
Murray Kay	41,079	47,401			
Niko Kloeten	27,663	-			
Dr Lyn Murphy	13,416	40,441			
Jill Naysmith	13,416	40,441			
Total	**448,493**	**451,626**	**Total**	**145,570**	**144,497**
Henderson-Massey			**Hibiscus and Bays**		
Paula Bold-Wilson	29,111	-	Christina Bettany	28,572	-
Brenda Brady, JP	48,789	47,490	David Cooper	42,427	41,751
Peter Chan, JP	43,227	42,560	Janet Fitzgerald, JP	43,707	46,371
Warren Flaunty, QSM	43,227	42,560	Gaye Harding-Kirikiri	13,855	41,751
Will Flavell	43,227	42,560	Gary Holmes	42,427	41,751
Matt Grey	29,111	-	Julia Parfitt, JP	83,373	84,022
Shane Henderson	73,042	42,560	Lovisa Rasmussen	13,855	41,751
Tracy Kirkley	15,698	43,848	Greg Sayers	13,855	41,751
Vanessa Neeson, JP	58,847	89,675	Caitlin Watson	28,572	-
Luke Wilson	14,117	42,560	Vicki Watson	28,572	-
			Lisa Whyte	13,855	41,751
			Mike Williamson	28,572	-
Total	**398,396**	**393,813**	**Total**	**381,642**	**380,899**
Howick			**Kaipātiki**		
Garry Boles	43,427	42,760	Dr Grant Gillion	13,775	41,552
Katrina Bungard	43,427	42,760	John Gillon	42,179	41,552
David Collings	92,754	93,901	Paula Gillon	28,404	-
Jim Donald, JP	43,427	42,760	Danielle Grant	68,729	41,552
Lucy Schwaner	16,522	42,760	Ann Hartley, JP	42,179	41,552
John Spiller	43,427	42,760	Richard Hills	13,775	41,552
Mike Turinsky	13,703	-	Kay McIntyre, QSM	56,002	83,203
Steve Udy	15,342	51,120	Lorene Pigg	13,775	41,552
Adele White	43,427	42,760	Anne-Elise Smithson	28,404	-
Bob Wichman	43,427	42,760	Adrian Tyler	28,404	-
Peter Young, JP	29,245	-	Lindsay Waugh	42,179	41,552
Total	**428,128**	**444,341**	**Total**	**377,805**	**374,067**

Section F: Other disclosures

F5 Related parties transactions (continued)

Local government disclosures (continued)

Local board members' remuneration (continued)

$	2017	2016	$	2017	2016
Māngere-Ōtāhuhu			**Manurewa**		
Tauanu'u Nick Bakulich	42,328	41,652	Joseph Allan	28,505	-
Carrol Elliot, JP	42,328	41,652	Michael Bailey	13,823	41,652
Makalita Kolo	28,505	-	Simeon Brown	39,070	41,652
Tafafuna'i Tasi Lauese, JP	42,328	41,652	Stella Cattle	28,505	-
Christine O'Brien	42,328	41,652	Sarah Colcord	28,505	-
Leau Peter Skelton	13,823	41,652	Angela Cunningham-Marino	42,328	41,652
Lemauga Lydia Sosene	81,522	81,315	Angela Dalton	83,083	83,723
Togiatolu Walter Togiamua	42,328	41,652	Hon George Hawkins, QSO	13,823	41,652
			Danella McCormick	13,823	41,652
			Rangi McLean	28,505	-
			Ken Penney	42,328	41,652
			Daryl Wrightson	13,823	41,652
Total	**335,490**	**331,227**	**Total**	**376,121**	**375,287**
Maungakiekie-Tāmaki			**Orākei**		
Don Allan	28,337	-	Ken Baguley	13,888	41,852
Josephine Bartley	66,878	41,449	Troy Churton	42,528	41,852
Debbie Burrows	28,337	-	Carmel Claridge	28,639	-
Brett Clark	13,743	41,449	Kate Cooke, JP	13,888	41,852
Bernie Diver	28,337	-	Colin Davis, JP	68,416	41,852
Bridget Graham, QSM	13,743	41,449	Toni Millar, QSM, JP	28,639	-
Nerissa Henry	28,337	-	Kit Parkinson	42,528	41,852
Chris Makoare	42,079	41,449	Ros Rundle	28,639	-
Simon Randall	26,733	80,600	Desley Simpson, JP	27,451	82,764
Obed Unasa	13,743	41,449	Mark Thomas	13,888	41,852
Alan Verrall	42,079	41,449	David Wong	28,639	-
Debbie Burrows	**332,346**	**329,294**	**Total**	**337,143**	**333,876**
Ōtara-Papatoetoe			**Papakura**		
Apulu Reece Autagavaia	28,639	-	Felicity Auva'a	27,731	-
Dr Ashraf Choudhary, QSO, JP	28,639	-	Stuart Britnell	13,449	40,544
Fa'anānā Efeso Collins	27,353	82,454	Brent Catchpole	63,528	42,158
Lotu Fuli	68,705	41,852	Hon George Hawkins, QSO	27,731	-
Stephen Grey	13,888	41,852	Bill McEntee	52,048	73,288
Mary Gush	42,528	41,852	Graham Purdy	13,449	40,544
Donna Lee	42,528	41,852	Michael Turner	41,179	40,544
John McCracken	13,888	41,852	Katrina Winn	41,179	40,544
Ross Robertson, QSO, JP	42,528	41,852			
Dawn Trenberth	28,639	-			
Total	**337,335**	**333,566**	**Total**	**280,294**	**277,622**
Puketāpapa			**Rodney**		
Anne-Marie Coury	28,135	-	Brent Bailey	27,394	-
Harry Doig	64,806	41,146	Tessa Berger	27,394	-
Julie Fairey	53,481	76,410	Cameron Brewer	27,394	-
David Holm	41,779	41,146	James Colville	13,285	40,038
Shail Kaushal	28,135	-	Warren Flaunty, QSM	13,285	40,038
Ella Kumar, JP	41,779	41,146	Steven Garner	13,285	40,038
Nigel Turnbull	13,645	41,146	Thomas Grace	13,285	40,038
Michael Wood	13,645	41,146	Beth Houlbrooke	63,553	40,038
			Louise Johnston	27,394	-
			John McLean	13,285	40,038
			Phelan Pirrie	42,679	42,518
			Allison Roe, MBE	27,394	-
			Greg Sayers	13,285	40,038
			Colin Smith	27,394	-
			Brenda Steele	52,235	74,884
Total	**285,405**	**282,140**	**Total**	**402,541**	**397,668**

Section F: Other disclosures

F5 Related parties transactions (continued)

Local government disclosures (continued)

Local board members' remuneration (continued)

$	2017	2016
Upper Harbour		
Uzra Casuri Balouch, JP	27,933	-
Callum Blair	14,774	39,616
Nicholas Mayne	27,933	-
John McLean	41,479	40,844
Margaret Miles, JP	83,248	72,651
Brian Neeson, JP	43,953	43,190
Christine Rankin-MacIntyre	13,547	40,844
Lisa Whyte	74,490	74,632
Total	**327,357**	**311,777**

$	2017	2016
Waiheke		
Becs Ballard	8,145	24,568
Shirin Brown	24,938	24,568
Cath Handley	16,793	-
John Meeuwsen	24,938	24,568
Beatle Treadwell	8,145	24,568
Bob Upchurch	16,793	-
Paul Walden	58,092	58,483
Total	**157,844**	**156,755**

$	2017	2016
Waitākere Ranges		
Sandra Coney, QSO	52,559	74,437
Neil Henderson	41,379	40,743
Greg Presland	63,378	40,743
Steve Tollestrup	41,379	40,743
Saffron Toms	41,379	40,743
Denise Yates, JP	41,379	40,743
Total	**281,453**	**278,152**

$	2017	2016
Waitematā		
Shale Chambers	54,560	79,461
Adriana Avendario Christie	28,202	-
Pippa Coom	66,833	41,249
Mark Davy	28,202	-
Christopher Dempsey	13,677	42,009
Greg Moyle	13,677	41,249
Richard Northey, ONZM	28,202	-
Vernon Tava	50,559	41,249
Rob Thomas	41,879	41,249
Deborah Yates	13,677	41,249
Total	**339,468**	**327,715**

$	2017	2016
Whau		
Derek Battersby,QSM, JP	42,328	41,652
Ami Chand, JP	13,823	41,652
Catherine Farmer	55,482	81,315
Duncan Macdonald, JP	42,328	41,652
Ruby Manukia-Schaumkel	13,823	41,652
Simon Matafai	13,823	41,652
Te'eva Matafai	28,505	-
Tracy Mulholland	53,770	-
David Whitley	28,505	-
Susan Zhu	42,328	41,652
Total	**334,715**	**331,227**

The total local board remuneration as at 30 June 2017 is $6,987,171 (2016: $6,929,428).

Section F: Other disclosures

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

	Group		Council	
$million	**2017**	**2016**	**2017**	**2016**
Surplus/(deficit) after income tax	**640**	**(231)**	**(193)**	**(636)**
Add/(less) non-cash items				
Depreciation and amortisation	874	829	256	237
Vested assets	(374)	(247)	(106)	(64)
Net change in fair value of financial instruments	(240)	554	(147)	416
Net increase in fair value of investment property	(61)	(62)	(15)	(17)
Time value adjustments	46	13	44	13
Impairment of property, plant and equipment, receivables and other assets	28	28	14	11
Net loss/(gain) on disposal of property, plant and equipment and intangible assets	2	49	(5)	34
Share of surplus in associates and jointly-controlled entities (net of dividends received)	(22)	(18)	(4)	-
Other non-cash revenue	(8)	(22)	(8)	(22)
Less items classified as investing or financing activities	**(76)**	**(58)**	**(33)**	**(60)**
Add/(less) movements in working capital items	**5**	**(64)**	**(9)**	**13**
Net cash inflow from operating activities	**814**	**771**	**(206)**	**(75)**

F7 City Rail Link project (CRL project)

The CRL is an underground rail line that will link Britomart and the city centre with the existing western line near Mt. Eden. The CRL project is a significant infrastructure project to enhance the capacity and performance of Auckland rail services and improve transport outcomes in Auckland.

The Crown and the council (the Sponsors) have, through a Sponsors Agreement signed on 30 June 2017, agreed in principle to equally co-fund the development and delivery of CRL over the life of the project. The Sponsors have incorporated City Rail Link Limited (CRLL) which assumed the responsibility from Auckland Transport for the design and construction of the CRL from 1 July 2017 pursuant to the Project Delivery Agreement.

The expected costs of the project are $3.4 billion which will be confirmed once all the contracts are finalised. The maximum funding limits for the project agreed by the Sponsors totals $3.6 billion. In line with the LTP 2015-2025, the council's funding limit is $1.8 billion, inclusive of 50% of the costs already incurred by Auckland Transport. CRLL will make funding requests over the life of the project which is expected to be completed in 2023.

The Group has assessed that the council and the Crown jointly control CRLL since the Sponsors have a binding agreement to share control in the governance of CRLL. The Sponsors have created a joint sponsors' forum which is responsible for the top-level oversight of the CRL project and where the Sponsors approve major project decisions, which are key relevant activities of CRLL.

To facilitate the transfer of responsibility for the CRL project from Auckland Transport to CRLL, existing project assets are being transferred from the council Group to CRLL as and from 1 July 2017 pursuant to the Asset Transfer Agreement. Subsequent to balance sheet date, CRLL obtained the necessary authority to assume responsibility of the CRL project and the Crown's commitments came into effect.

Non-current assets held for sale
At 30 June 2017, Auckland Transport has reclassified the CRL assets of $435 million to non-current assets held for transfer, previously under property, plant and equipment since CRLL has assumed responsibility to complete the CRL project effective 1 July 2017.

Section F: Other disclosures

F7 City Rail Link project (CRL project) (continued)

The Group will contribute 100% of the CRL assets to get a 50% share of CRLL. The Crown will reimburse the Group in the form of cash paid to the council equal to 50% of the costs incurred by the Group in respect of the CRL project to date for its 50% share in CRLL. This will establish the new co-funded go-forward position for the CRL project.

At a group level, since the council will retain 50% control of CRL assets as a co-sponsor in funding CRLL, at 30 June 2017, the Group classified 50% of CRL assets to non-current assets held for sale from property, plant and equipment's operational land and buildings and work in progress.

The carrying value of 50% of CRL assets held for sale as at 30 June 2017 amounted to $217 million. No impairment loss was recognised upon the reclassification of the 50% CRL assets. Refer to Notes D3 and D4 for liabilities in relation to CRL project.

Capital commitments
The capital commitments under Note F4 include Auckland Transport's commitments in respect of the CRL project of $324 million as at 30 June 2017 (30 June 2016: $185 million).

Section G: Financial reporting and prudence benchmarks

Annual report disclosure statement for the year ended 30 June 2017

What is the purpose of this statement?

The purpose of this statement is to disclose the Group's financial performance in relation to various benchmarks to enable the assessment of whether the Group and 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 full Auckland Council Group including Watercare Services Ltd, Auckland Transport and Ports of Auckland Ltd with the exception of the debt affordability section which excludes Watercare Services Ltd and other specified debt. Watercare is excluded from the calculation of prudential ratios as it is not reliant on the council to fund its operation.

Unless prescribed by the regulations, the quantified limit for each benchmark is calculated using financial information disclosed in the LTP including the prospective financial statements.

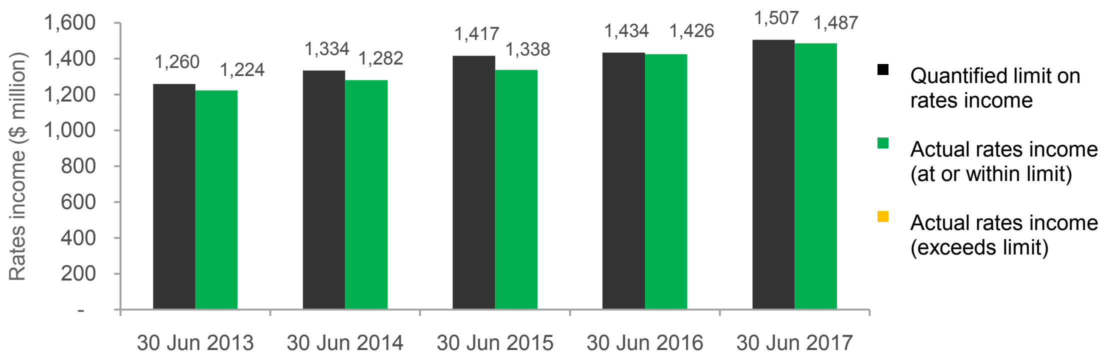
Rates affordability benchmark

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.

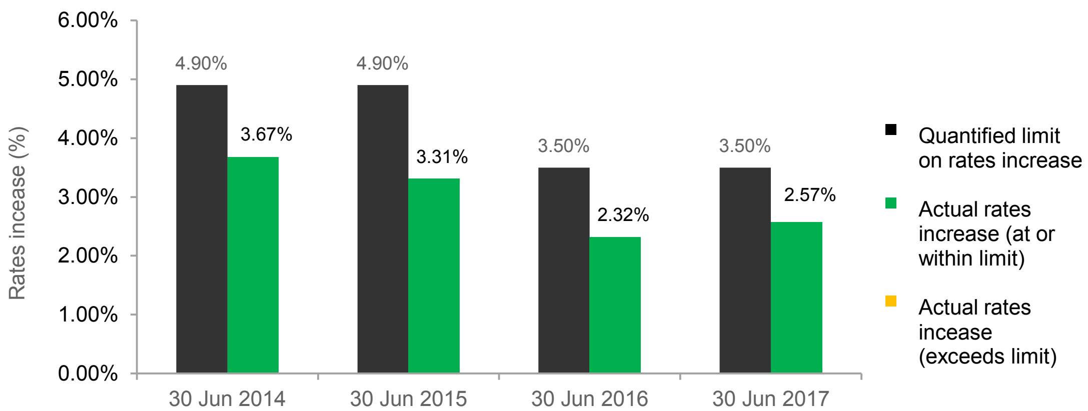
Rates (income) affordability

The following graph compares the Group's general rates income including growth in the rating base with the quantified limit contained in the LTP.



Rate (increases) affordability

The following graph compares the year-on-year actual and the LTP percentage increase in the group's rates income. The quantified limit is calculated using the increase in rates income, exclusive of growth in the rating base. Due to the unavailability of the general rates number for 2012, the movements for the June 2013 year has not been disclosed.



Section G: Financial reporting and prudence benchmarks

Debt affordability benchmark
The Group meets the debt affordability benchmark if its actual borrowing is within each quantified limit on borrowing. There are three quantified limits described in the LTP:

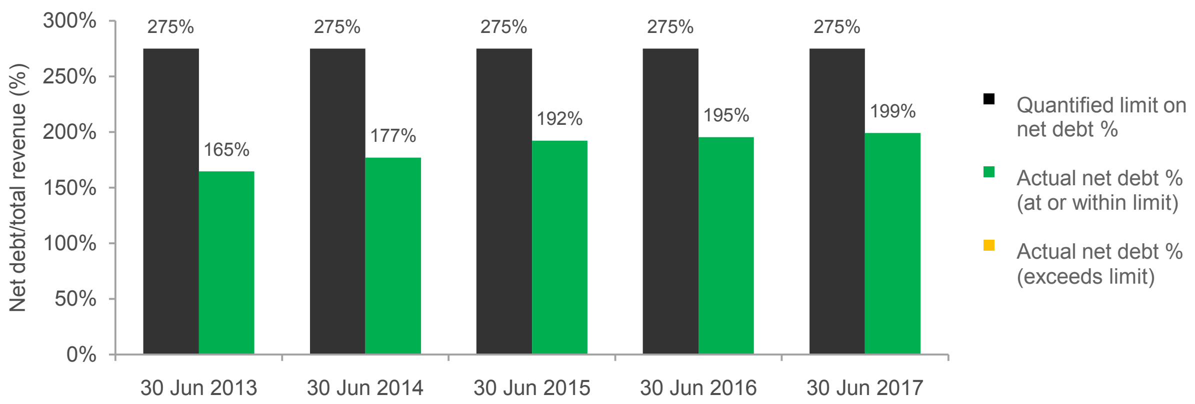
- net debt as a percentage of total revenue
- net interest as a percentage of total revenue
- net interest as a percentage of annual rates income

For the purposes of this section as prescribed in the LTP, the limits exclude any revenue or expenses, asset or liability relating to Watercare, including revenue, debt, investments, interest revenue and interest expense.

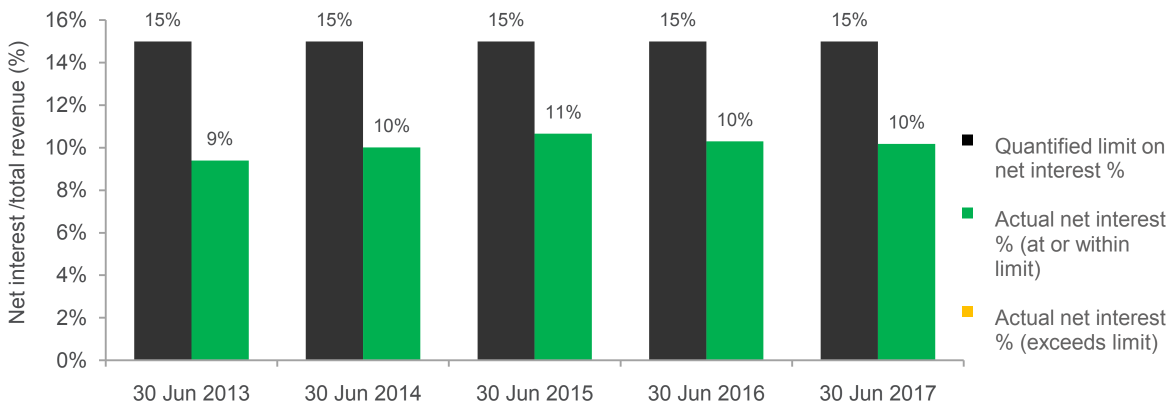
The components used in the debt affordability benchmarks are defined as follows:

- **Total revenue**: earnings from rates, government operating grants and operating subsidies, user charges, interest, dividends, development contributions received to service the borrowing cost relating to growth related capital works, financial and other revenue.
- **Net debt**: total borrowings less cash and cash equivalents, unit trusts and listed shares. Net debt excludes guarantees to related or third parties.
- **Net interest**: net finance expense.
- **Annual rates income**: general and targeted rates.

Net debt as a percentage of total revenue
The graph compares the Group's actual borrowing with a quantified limit on borrowing stated in the financial strategy included in the LTP. The quantified limit is net debt as a percentage of total revenue. A value less than the quantified limit of 275% indicates compliance with the prudential limit.

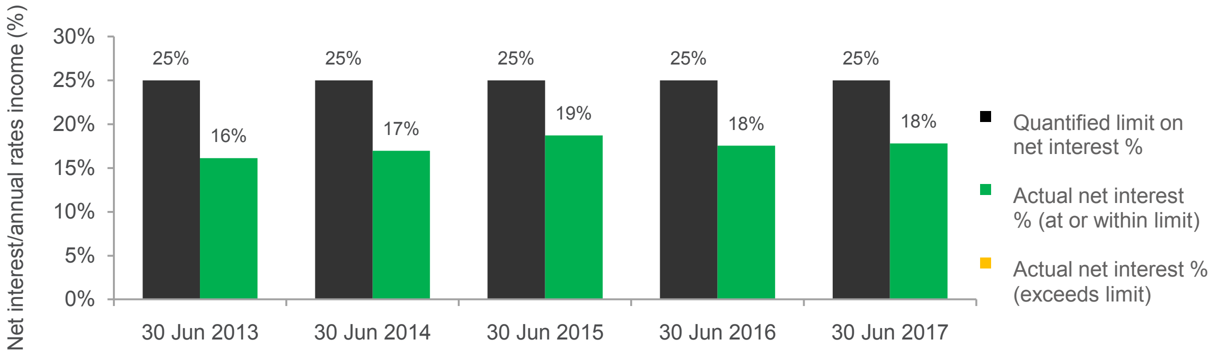


Net interest as a percentage of total revenue
The following graph compares the Group's actual borrowing with a quantified limit on borrowing stated in the financial strategy included in the LTP. The quantified limit is net interest as a percentage of total revenue. A value less than the quantified limit of 15% indicates compliance with the prudential limit.



Section G: Financial reporting and prudence benchmarks

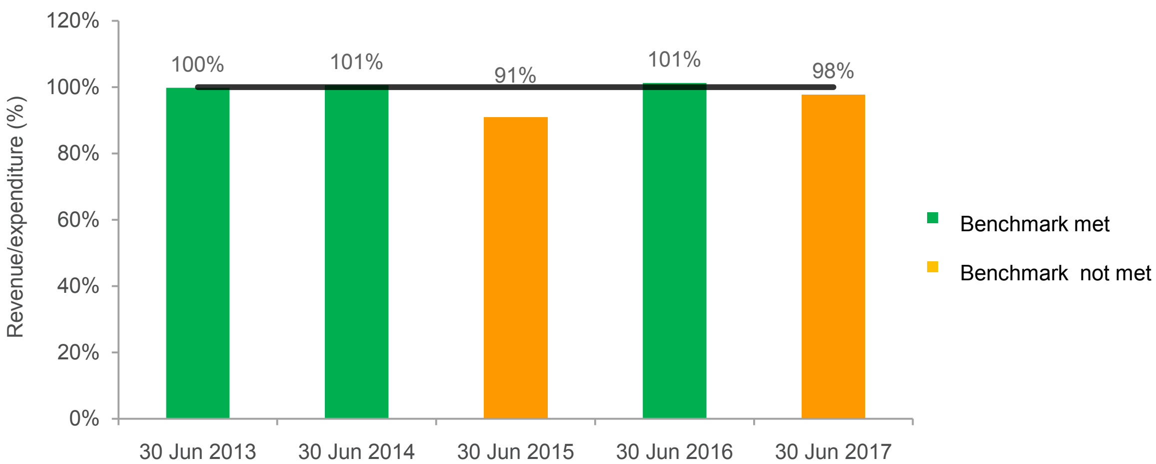
Debt affordability benchmark (continued)
Net interest as a percentage of annual rates income
The graph compares the Group's actual borrowing with a quantified limit on borrowing stated in the financial strategy included in the Group's LTP. The quantified limit is net interest as a percentage of annual rates income. A value less than the quantified limit of 25% indicates compliance with the prudential limit.



Balanced budget benchmark
The graph displays the Group's revenue (excluding development contributions, financial contributions, vested assets, gains on derivatives 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.

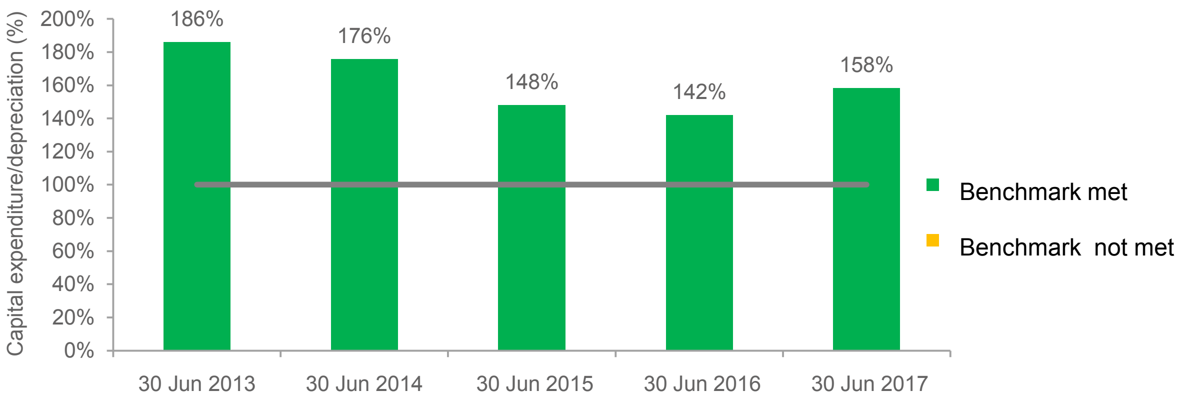
For the purpose of the balanced budget benchmark, movements in derivative financial instruments have been excluded in accordance with the disclosure requirement. The Group has entered into derivative transactions to mitigate any foreign currency exposure from its offshore borrowings as required by its 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 E1 for further details of the council's risk management policies on foreign exchange risk.

The adjusted revenue was lower than the adjusted operating expenses in 2015 and 2017, mainly due to expenses incurred being greater than budget. Please see section A of this volume for the variance analysis on the "Results of Operations".

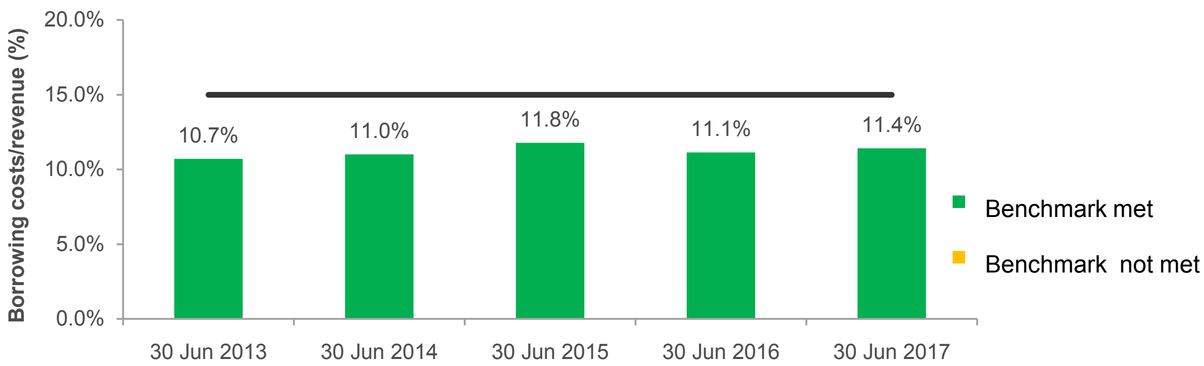


Section G: Financial reporting and prudence benchmarks

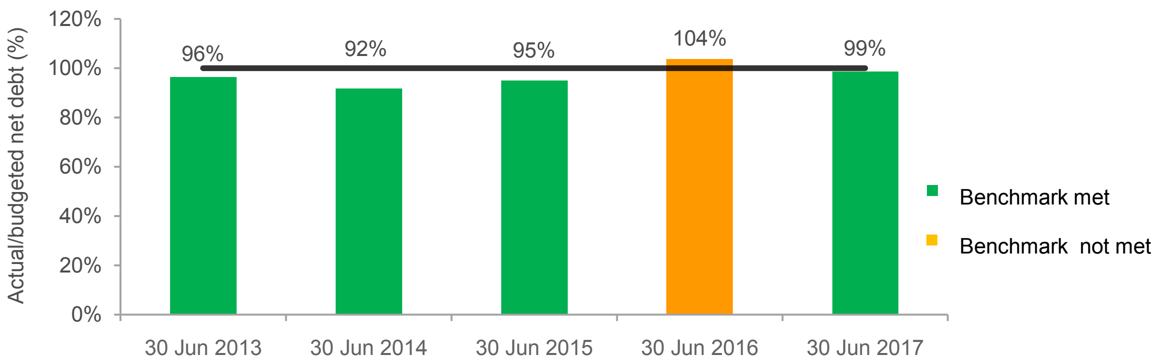
Essential services benchmark
The graph displays the Group's capital expenditure on network services as a proportion of depreciation on network services. The Group meets this benchmark if its capital expenditure on network services equals or is greater than depreciation on network services.



Debt servicing benchmark
The graph displays the Group's borrowing costs as a proportion of revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment). Because Statistics New Zealand projects the council'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 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 net debt was adversely impacted by derivatives which were higher than planned as a result of the volatility in interest rates during the financial year which was not budgeted (refer to note C2). Also included in net debt is borrowings that were lower than planned (refer to note C1).

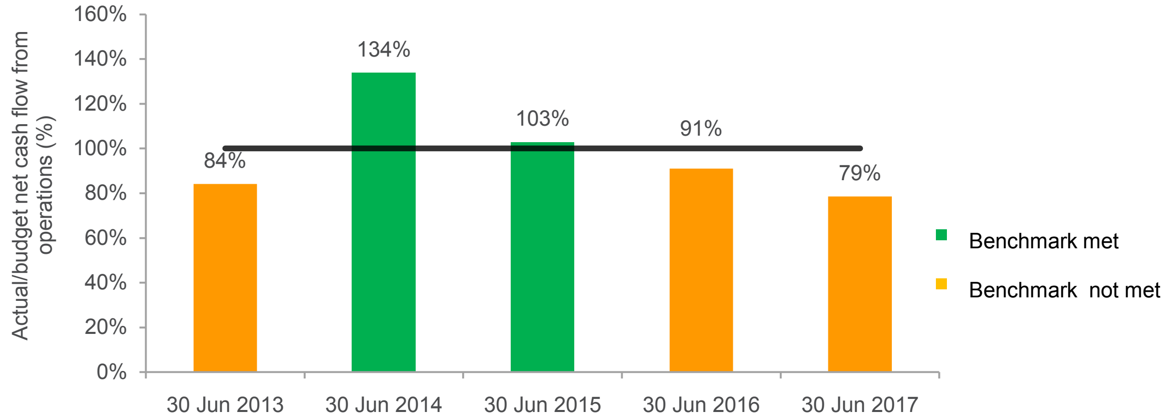


Section G: Financial reporting and prudence benchmarks

Operations control benchmark

This graph displays the Group's actual net cash flow from operations as a proportion of its planned net cash flow from operations in the LTP. 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 2013 actual cash flow was less than planned due to lower than expected cash receipts from rates and other fees. The 2016 and 2017 actual cashflows was less than planned due to higher than expected cash outflows for delivery of council services and maintenance of council assets (refer to Section A for the variance analysis on the "Results of Operations").

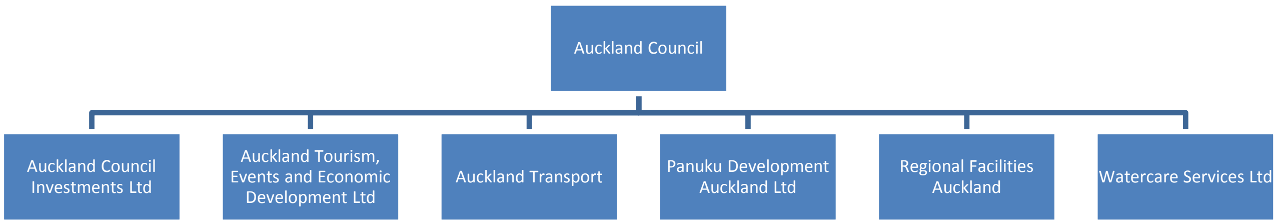


Section H: Council-controlled organisations

Overview

Council-controlled organisations (CCOs) are organisations in which 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 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, and includes Auckland Transport.

Auckland Council has six substantive CCOs – all of which it is the sole shareholder of:



In addition to the substantive CCOs, Auckland Council has a number of other CCOs which together represent less than 0.1% of the Group's total assets. These include:

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

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

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

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

- 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 Maori 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 LTP.

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

Section H: Council-controlled organisations

Auckland Council Investments
An Auckland Council Organisation

Overview

Auckland Council Investments Ltd (ACIL) owns on behalf of the people of Auckland, Ports of Auckland Ltd (POAL), Auckland Film Studios Ltd (AFSL), and a large equity holding in Auckland International Airport Ltd (AIAL).

The purpose of ACIL is to support the council's vision and to bring a strong commercial and strategic focus to the ownership and management of the council's investments in POAL, AIAL and AFSL. ACIL's role is to maximise the contribution of these assets to the Auckland economy and provide substantial financial returns, which are financially sustainable in the long run.

The council's Finance and Performance Committee approved on 26 July 2017 the distribution of AFSL's assets and liabilities to the council.

Objectives and contribution to LTP

ACIL holds equity interests in POAL, AIAL, AFSL. These assets contribute to the council's delivery of Auckland Plan outcomes by:

- Providing strong governance and commercial focus to the ownership of the council's major equity investments;
- Keeping strategic assets in public ownership;
- Managing assets including POAL and AIAL shares strategically and prudently to optimise their long-term benefit for the region.

Activities

ACIL's activities include:

- Commercial focus on the ownership and management of Council's investments;
- Maximise contribution to Auckland economy and provide substantial financial returns, which are sustainable in the long term.

For information on the above activities, actual performance, key performance targets and other measures set out in the LTP see Governance and support theme in volume 1 of this annual report.

Directors

- Keith Taylor (Chairperson)
- Hinerangi Raumati
- Linda Robertson

Section H: Council-controlled organisations

Auckland Tourism, Events and Economic Development

An Auckland Council Organisation

Overview

Auckland Tourism, Events and Economic Development Ltd's (ATEED's) role is to support the Council's vision of creating the world's most liveable city and deliver great value for money by supporting the growth of a vibrant and competitive economy, with a particular focus on facilitating new smart money and high value jobs for Auckland.

Objectives and contribution to LTP

ATEED is to contribute to the following priorities from the Auckland Plan and the Auckland Council Economic Development Strategy:

- Develop an 'innovation hub of the Asia-Pacific region';
- An 'internationally connected and export driven city';
- Develop 'a business friendly and well-functioning city';
- Invest in 'people to grow skills and local workforce';
- Creating 'a vibrant, creative international city'.

ATEED is to help support and enhance the performance of the Auckland region as a growth engine in the New Zealand economy.

ATEED is to recognise the Government as a strategic partner and align with policy and funding for economic development, events and tourism that is targeted at the regional level.

Activities

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

- Grow the Auckland economy by creating an environment that attracts both new residents, visitors, new business and investment;
- Working with the private sector and government partners:
- to stimulate innovation and entrepreneurship;
- to attract new business investment;
- to grow a skilled workforce;
- to enable education and talent;
- to grow the visitor economy;
- to build Auckland's brand and identity;
- Continuing to expand Auckland as a world-leading events city through attracting, delivering and/or supporting an annual portfolio of more than 30 major events, including the World Masters Game 2017;
- Developing the potential of the region's Māori economy, particularly in tourism, innovation and information communications technology;
- Delivering the Aroha Auckland programme that provides post-investment support for multi-national companies and international investors;
- Developing GridAKL and The FoodBowl to stimulate innovation;
- Develop export markets for Auckland companies.

For information on the above activities, actual performance, key performance targets and other measures set out in the LTP see Economic and cultural development theme in volume 1 of this annual report.

Directors

- David McConnell (Chairperson)
- Danny Chan
- Norman Thompson (Deputy Chairperson)
- Professor Stuart McCutcheon
- Franceska Banga
- Helen Robinson
- Mike Taitoko

Section H: Council-controlled organisations

Overview

Auckland Transport is responsible for managing the region's transport system. It provides all of Auckland's transport requirements (except state highways and Auckland motorways) ranging from roads and footpaths to traffic signals, and managing bus and train services and street parking.

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

Objectives and contribution to LTP

Auckland Transport is to contribute to an efficient, sustainable, energy saving and cost effective land transport system to support Auckland's social, economic, environmental and cultural well-being.

Auckland Transport is to create better connections and accessibility within Auckland by:
Managing Auckland's transport as a single system;
Integrating transport planning with land use development;

- Prioritising and optimising investment across transport modes;
- Implementing new transport funding mechanisms.

Auckland Transport is to deliver infrastructure and services to support a transformational shift towards greater use of passenger transport.

Auckland Transport should have regards to:

- Building resilience to natural hazards;
- Auckland Plan urban design principles;
- Realising a quality compact city.

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 LTP see Transport theme in volume 1 of this annual report.

Directors

- Dr Lester Levy (Chairperson)
- Sir Michael Cullen
- Mark Gilbert
- Ernst Zőllner
- Wayne Donnelly (Deputy Chairperson)
- Rabin Rabindran
- Kylie Clegg
- Mary-Jane Daly
- Dame Paula Rebstock

Section H: Council-controlled organisations

Panuku Development Auckland
An Auckland Council Organisation

Overview

Panuku Development Auckland Ltd, contributes to the implementation of the Auckland Plan and encourages economic development by facilitating the redevelopment of town centres that optimises and integrates good public transport outcomes, efficient and sustainable infrastructure and quality public services and amenities. Panuku Development Auckland also manages the council's properties that are not immediately required for service delivery, and commercial properties owned by Auckland Transport and the council that are held to generate revenue. The aim of Panuku Development Auckland is to achieve an overall balance of commercial and strategic outcomes.

Objectives and contribution to LTP

The objectives of Panuku Development Auckland are to:

- Facilitate redevelopment of urban locations agreed to by council;
- Accommodate residential and/or commercial growth in those locations;
- Redevelopment of Auckland's waterfront;
- Optimisation of 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 Development Auckland'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 LTP see Auckland development theme in volume 1 of this annual report.

Directors

- Richard Aitken (Chairperson)
- Richard Leggat
- Mike Pohio
- Anne Blackburn
- Susan Macken
- Martin Udale
- Evan Davies
- Paul Majurey

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 ANZ Viaduct Events Centre, Aotea Centre, Aotea Square, Auckland Art Gallery Toi o Tāmaki, Auckland Town Hall, Auckland Zoo, Bruce Mason Centre, Mt Smart Stadium, The Civic, QBE Stadium and Western Springs Stadium.

Objectives and contribution to LTP

The objectives of RFA include:

- To offer experiences to improve the cultural, environmental and social wellbeing of residents and visitors;
- To contribute to the growth of the Auckland economy;
- To operate as a successful business utilising sound business practice and commercial acumen to make sure Aucklanders receive value for investment in regional facilities.

These objectives shall be facilitated through RFA's management of assets and the funding decisions. RFA is to recognise Government as a strategic partner and align with policy and funding for arts, culture, heritage and cultural institutions that is targeted at the regional level.

Activities

RFA's activities include the following:

- Acts as a regional voice for arts, culture, heritage, leisure, sports and entertainment issues;
- Advocates, co-ordinates and leads strategic thinking for investing in new collections and arts, cultural, heritage, leisure, sport and entertainment facilities for Auckland;
- Develops, 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;
- Plans for and implements regionally identified projects;
- Nurtures region-wide arts, cultural and heritage activities and organisations;
- Secures 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 LTP see Economic and cultural development theme in volume 1 of this annual report.

Directors

- Sir Don McKinnon (Chairperson)
- Geoff Clews
- John Robertson
- Joanna Perry (Deputy Chairperson)
- Andrew Collow
- Rukumoana Schaafhausen
- Lisa Bates
- Fabian Partigliani
- Gary Troup

Section H: Council-controlled organisations

Watercare
An Auckland Council Organisation

Overview

Watercare Services Ltd (Watercare) is responsible for delivering outstanding water services for the people of Auckland, now and in the future.

On 1 November 2010, the company absorbed the ownership and management of local networks and the retail functions from the previous local councils. The exception is Veolia Water Services (ANZ) Pty Ltd which manages the local networks and retailing of water and wastewater in the Papakura area under a franchise agreement while Watercare owns the assets.

Objectives and contribution to LTP

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

- Building resilience to natural hazards;
- Realising a compact city;
- Optimize, integrate and align 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 LTP see Water supply and wastewater treatment and disposal theme in volume 1 of this annual report.

Directors

- Margaret Devlin (Chairperson)
- Brendan Green
- David Thomas
- Julia Hoare (Deputy Chairperson)
- Catherine Harland
- Dr Nicki Crauford
- Tony Lanigan

INDEPENDENT AUDITOR'S REPORT

**TO THE READERS OF
AUCKLAND COUNCIL'S ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

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 the Auckland Council and the Group have complied with the requirements of Schedule 10 of the Act that apply to the annual report; and
- the completeness and accuracy of the Auckland Council and the Group's disclosures about 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 11 to 83 present fairly, in all material respects, the financial position of the Auckland Council and the Group as at 30 June 2017, and the financial performance and cash flows for the year then ended, in accordance with Public Benefit Entity accounting standards;
- the funding impact statement in Volume 1 on page 77, 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 Group's annual plan;
- the statement of service performance of the Auckland Council Group, in Volume 1 on pages 80 to 186 and in Volume 2 on pages 18 to 42:
    - presents fairly, in all material respects, the levels of service for each group of activities for the year ended 30 June 2017, 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 80 to 186, and in Volume 2 on pages 18 to 42 presents fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in the Auckland Council Group's long-term plan;

- the funding impact statement for each group of activities in Volume 1 on pages 80 to 186 and in Volume 2 on pages 18 to 42, 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 Group's long-term plan; and

- the statements of service performance for local activities for each local board in Volume 2 on pages 43 to 245, present fairly, in all material respects:

    - the activities for each local board for the year ended 30 June 2017, including the level of service achieved for the activities compared with the performance target or targets for those activities as set out in the local board agreement for the year; and

    - the reasons for any significant variation between the levels of service achieved and the intended levels of service.

Report on the disclosure requirements

In my opinion the Auckland Council and the Group have:

- complied with the requirements of schedule 10 of the Act that apply to the annual report; and

- made the disclosures about performance against benchmarks that are required by the Local Government (Financial Reporting and Prudence) Regulations 2014 in Volume 3 on pages 84 to 88, which represent a complete list of required disclosures and accurately reflects the information drawn from the Auckland Council and the Group's audited information and, where applicable, the Auckland Council Group's long-term plan and annual plans.

Basis for opinion on the audited information

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

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

In addition to my audit and my report on the disclosure requirements, my staff and appointed auditors and their staff have carried out a range of other assurance and consultancy engagements, which are compatible with those independence requirements. Other than these engagements, and in exercising functions and powers under the Public Audit Act 2001, I have no relationship with or interests in Auckland Council or any of its subsidiaries and controlled entities.

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

Valuation of operational and infrastructure assets	**How we addressed this matter**
The Auckland Council and the Group own a large portfolio of operational and infrastructure assets. As discussed in note B1 to the financial statements, in Volume 3 on pages 29 to 40, the Group had infrastructure assets of $29.2 billion, operational assets of $8 billion, and restricted assets of $6.1 billion at 30 June 2017. A number of assets are recorded at fair value with revaluations performed regularly or when the fair value is materially different to the carrying value. The reasonableness of the valuation depends on the completeness and accuracy of the underlying asset information and the appropriateness of the methodology and assumptions used. The valuation of infrastructure assets on a depreciated replacement cost basis is inherently complex. It involves using large and complex data sets, judging the condition and useful lives of components, and identifying appropriate replacement costs of components. Because of the large value of the assets held by the Auckland Council and the Group, a small movement in the valuation or expected useful life of some components can have a significant effect on the depreciation expense recognised in the financial statements. The large, more complex, assets include: • Water, wastewater, and stormwater, which account for 39% ($11.3 billion) of the Group's infrastructure. Many of these assets are below ground. This makes it difficult to verify the assets are in place, their condition, and their capacity for valuation purposes. • Roads, which account for 33% ($9.7 billion) of the Group's infrastructure. The valuation is determined by separately valuing each of the various components. Some components cannot be physically inspected because they are beneath other layers. I considered the valuation of operational and infrastructure assets a key audit matter because of the significance of the amounts involved and the judgements applied.	We asked about how the Auckland Council and the Group determined that the recorded value for operational and infrastructure assets was not materially different from fair value at balance date. We assessed the Auckland Council and the Group's evidence to support these assertions. For those assets that had been revalued, we read the valuation reports and discussed the approach to the valuation with the valuers. We obtained representations that the valuation approach was in keeping with accepted professional valuation standards. We assessed the valuers' expertise for the work and their objectivity. This included considering whether they had other engagements or relationships with the Auckland Council and the 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 calculation for those assets valued on a depreciated replacement cost basis. We reviewed 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 the 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 reviewed the overall valuation changes and sought explanations from the valuers for any significant or unusual changes in value. I am satisfied that the operational and infrastructure asset values in the Auckland Council and the Group's financial statements are reasonable and supportable.
Valuation of derivatives	**How we addressed this matter**
The Auckland Council and the Group use derivative financial instruments to mitigate risks associated with foreign currency and interest rate fluctuations. As discussed in Note C2 to the financial statements, in Volume 3 on pages 46 to 48, the Group reported derivative assets with a fair value of $170 million, and derivative liabilities with a fair value of $872 million. For the year ended 30 June 2017, as discussed in Note A6 in Volume 3 on page 26, there was a net gain on derivatives of	We assessed the Auckland Council and the Group's processes to record all derivatives, including their terms and conditions. We got 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 the following:

$237 million recognised by the Group compared to a net loss of $661 million in the prior year. This is the result of a rise in long-term interest rates and changes in foreign currency rates. I considered the valuation of derivatives a key audit matter because there is judgement needed, the values rely on certain assumptions, and the values are sensitive to small movements in interest rates and foreign exchange rates. These can have a significant effect on the value of the derivatives and the consequential gain or loss that is recognised in the financial statements.	• We estimated the fair value of a sample of derivatives using our internal valuation model and compared this to the Auckland Council and the Group's fair value. • We engaged an external valuer to estimate the fair value of a sample of derivatives, and compared this to the Auckland Council and the Group's fair value. We assessed the valuer's expertise and objectivity, and we considered the appropriateness of using the external valuer's work as audit evidence. • Where the Auckland Council and the Group engaged an external valuer to estimate fair value, we assessed the valuer's expertise and objectivity, and we considered the appropriateness of using the valuer's work as audit evidence. We also compared the valuations recorded by the Auckland Council and the Group to the counterparty valuations. Where we identified a significant difference when comparing the different valuation sources, we investigated the cause of the difference and assessed this for reasonableness and effect on the overall value of derivatives. I am satisfied that the derivative valuations recognised in the Auckland Council and the Group's financial statements are reasonable and supportable.
Valuation of the weathertightness provision	**How we addressed this matter**
The Auckland Council is legally obliged to pay its share of the costs to repair leaky homes. As discussed in note D5 to the financial statements, in Volume 3 on pages 55 to 58, the Auckland Council and the Group recognised a provision of $265 million for the year ended 30 June 2017. The Auckland Council's obligation extends to multi-unit dwellings as well as single homes. Multi-unit claims make up 89% of this provision. There are three different types of claims: • Active claims have been lodged and are progressing through the resolution process. • Reported claims have been lodged but are not yet progressing through the resolution process. • Unreported claims have yet to be reported or identified but the Auckland Council could have a liability. I considered the valuation of the weathertightness provision a key audit matter because the valuation of the provision, by an actuary, is complex and subject to a high degree of judgement and estimation. There is also inherent uncertainty about how many claims might be made and what they might cost. Because of the uncertainty, the Auckland Council and the 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 the 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 leaky home issues for Auckland Council and other councils. We re-assessed the accuracy of last year's estimates in light of the current year valuation as well as claim activity and settlements during the year. We reconciled active claims data to representations from the Auckland Council's lawyers. We made enquiries with the Auckland Council's in-house legal team and the actuary about any recent claims, court decisions, or changes in legislation that significantly affect the Auckland Council and the Group's liabilities (for example, by increasing the scope or limitations period of claims). I am satisfied that the provision recognised in the Auckland Council and the Group's financial statements for leaky homes is reasonable and supportable.
Reporting performance on housing and transport	**How we addressed this matter**
Housing and transport are high-priority issues for the future and international reputation of Auckland. They affect the productivity, affordability, and future growth of Auckland and New Zealand.	We looked at the performance measures and the accompanying narrative about housing and transport performance in the statement of service performance.

The Auckland Council Group reports performance information on housing and transport in the statement of service performance in Volume 1 on pages 80 to 186. The Auckland Council has been working with the Government to establish special housing areas to help address the city's housing shortage and increase the availability of affordable homes. The Auckland Council contributes to the resolution of the housing issues through: • establishing the rules for development under the Unitary Plan; • issuing building consents and code of compliance certificates; and • working with developers to agree on the timely release of land for developments. The Auckland Council Group has a key role in providing efficient and cost-effective transport around and through Auckland. Solutions to the current transport issues continue to evolve and include large projects requiring significant local and national funding over an extended period. The complexity of the housing and transport issues requires innovative solutions and sustainable funding, including collaboration between key local stakeholders, council-controlled organisations, and the Government. I considered this a key audit matter because of the significance of these issues to Aucklanders, and the importance of a balanced assessment of the Auckland Council Group's performance on these issues.	We identified the aspects of performance that we consider to be material to readers of the Auckland Council's annual report and focused our work on these aspects. This included material performance measures relevant to housing and transport. Our work included: • testing the effectiveness of relevant internal controls; • sample testing performance measures to supporting records; and • obtaining third-party confirmation of performance. Where information on the Auckland Council Group's housing and transport activities was included in the annual report but outside the statement of service performance, we reviewed the information for consistency with the audited financial statements and statement of service performance, and our knowledge obtained in the audit of the Auckland Council and the Group. This knowledge included information from: • our review of relevant Auckland Council and Group reports, meeting minutes, and supporting evidence; • discussions with governing bodies and management of the Auckland Council and the Group; and • discussions with other public sector agencies involved in Auckland matters. I am satisfied that the information presented in the statement of service performance about housing and transport is reasonable, and reflects both the role and performance of the Auckland Council Group in addressing the housing and transport issues identified.

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 4 to 76, pages 78 to 79 and pages 187 to 196, Volume 2 pages 4 to 17 and Volume 3 pages 3 to 9 and 103 to 113, but does not include the audited information and the disclosure requirements.

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

My responsibility is to read the other information. In doing so, I consider whether the other information is materially inconsistent with the audited information and the disclosure requirements or the knowledge obtained during my work, or otherwise appears to be materially misstated. If, based on the 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 the Group in accordance with Public Benefit Entity accounting standards.

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 misstatements, 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 the Auckland Council and the Group or there is no realistic alternative but to do so.

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.

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 conducted 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 readers take on the basis of the 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 Group's long-term plan.

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

- I identify and assess the risks of material misstatement of the audited information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- I obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Auckland Council and the Group's internal control.

- I evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Auckland Council and the Group.

- I determine the appropriateness of the reported intended levels of service in the statement of service performance of the Auckland Council Group and the statements of service performance for local activities for each local board, as a reasonable basis for assessing the levels of service achieved and reported.

- I conclude on the appropriateness of the use of the going concern basis of accounting by the Auckland Council and the Group and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Auckland Council and the 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 the Auckland Council and the 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 the Group to express an opinion on the consolidated audited information. I am responsible for the direction, supervision and performance of the Auckland Council and the Group audit. 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 benefits of such communication.

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

Greg Schollum
Deputy Auditor-General
Wellington, New Zealand
28 September 2017

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 10.4.5(f), Auckland Council (**Council**) discloses that, in the 12-month period preceding 30 June 2017, NZX has granted and published and Council has relied on the following waivers from Listing Rule 5.2.3:

- a waiver dated 15 March 2016 in respect of its issue of $250 million of fixed rate bonds (**AKC090 Bonds**). A further waiver in respect of the AKC090 Bonds was granted by NZX on 29 September 2016.
- a waiver dated 20 July 2016 in respect of its issue of $180 million of fixed rate bonds (**AKC100 Bonds**).

Listing Rule 5.2.3

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

In March 2016, NZX granted Council a waiver from Listing Rule 5.2.3 with respect to the AKC090 Bonds to allow Council to have fewer than 100 bondholders who are members of the public holding at least 25% of the AKC090 Bonds on issue for a period of six months from the quotation date of its initial offer of new bonds. In September 2016, NZX granted a further waiver from Listing Rule 5.2.3 with respect to the AKC090 Bonds for a period of twelve months from 30 September 2016.

NZX granted the further waiver in respect of the AKC090 Bonds from Listing Rule 5.2.3 on the following conditions:

- Council must clearly and prominently disclose the waiver, its conditions and its implications in its half-year report and its annual report, for the period that the waiver is relied upon;
- Council must notify NZX as soon as practicable if there is a material reduction to the total number of members of the public holding at least a Minimum Holding of the AKC090 Bonds and/or the percentage of the AKC090 Bonds held by members of the public holding at least a Minimum Holding;
- for the period of the waiver, the AKC090s must be held by at least 80 members of the public holding at least 15% of the AKC090 Bonds on issue, with each member of the public holding at least a Minimum Holding; and
- Council must provide NZX with a written update of the total number of members of the public holding at least a Minimum Holding of the AKC090 Bonds and the percentage of the AKC090 Bonds held by members of the public holding at least a Minimum Holding following AKC's financial year end. The update is to be provided to NZX within ten business days of the end of the financial year.

In July 2016, NZX granted Council a waiver from Listing Rule 5.2.3 with respect to the AKC100 Bonds to allow Council to have fewer than 100 bondholders who are members of the public holding at least 25% of the AKC100 Bonds on issue for a period of six months from the quotation date of its initial offer of new bonds.

NZX granted Council the waiver in respect of the AKC100 Bonds from Listing Rule 5.2.3 on the following conditions:

- Council was required to clearly and prominently disclose the waiver and its implications in the Series Notice for the AKC100 Bonds and any other offering document relating to an offer of the AKC100 Bonds made during the period of the waiver;
- Council must clearly and prominently disclose the waiver, its conditions and its implications in its half-year report, and its annual report, for the period the waiver is relied on;
- Council was required to disclose liquidity as a risk in the Series Notice for the AKC100 Bonds; and
- Council must notify NZX as soon as practicable if there is a material reduction to the total number of members of the public holding at least a Minimum Holding of the AKC100 Bonds and/or the percentage of the AKC100 Bonds held by members of the public holding at least a Minimum Holding.

The effect of these waivers from Listing Rule 5.2.3 is that the AKC090 Bonds and the AKC100 Bonds may not be widely held and there may reduced liquidity in those bonds.

NZX and other exchange listing requirements

Spread of public bondholders at 14 August 2017

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

Net tangible asset
Net tangible asset per $1,000 of listed bonds at 30 June 2017 is $26,026 (2016: $28,233).

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. 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 Group has transitioned to the PBE Accounting Standards for periods beginning on or after 1 July 2014 with comparative information restated as if the Group had always applied PBE Accounting Standards. Prior to the transition, the financial statements of the Group were prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (IFRS) as applicable to PBEs (NZ IFRS PBE). NZ IFRS PBE were based on IRFS with modifications and exemptions from certain requirements of IFRS.

The PBE Accounting Standards are primarily based on International Public Sector Accounting Standards (IPSAS). IPSAS are based on IFRS but adapted to a public sector context where appropriate by using more appropriate terminology and additional explanation 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.

Set out below are 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 2016). Differences that impact only on presentation and disclosure have not been identified.

PBE Accounting Standards with comparable IFRS equivalent

	PBE	IFRS	Impact
Formation of Auckland Council Group	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.	Without the scope exemption, the dissolution 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 of the acquired predecessor local authorities assumed by the acquirer would have been recognised at fair value as at the date of acquisition.	The impact of the above accounting treatment of the 2010 local authority reorganisation is that the carrying value of the assets and liabilities received as part of the reorganisation were not re-measured to fair value and no additional assets and liabilities such as goodwill and contingent liabilities were recognised as would have been required if the transaction is accounted for as a business combination under IFRS 3.

Main differences between IFRS and PBE Accounting Standards (continued)

PBE Accounting Standards with comparable IFRS equivalent (continued)

	PBE	IFRS	Impact
Property, Plant and Equipment	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 requires asset revaluation decreases to be recognised in operating surplus except to the extent there is sufficient asset revaluation reserves surplus relating to the same asset.	This difference could result in lower operating results under IFRS 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 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 on qualifying assets are expensed and are not built into the original costs or revaluations of physical assets.	IAS 23 *Borrowing Costs* requires capitalisation of borrowing costs incurred in relation to a qualifying asset. The definition of a qualifying asset is identical to that definition in PBE IPSAS 5.	This difference between the Group’s accounting policy to expense all borrowing costs under PBE IPSAS 5 and the IAS 23 requirement to capitalise all borrowing costs results in the Group’s property, plant and equipment value, and subsequent depreciation expense, being lower than those would be under IFRS. In addition, there is higher interest expense in the periods in which construction costs on qualifying assets are incurred.
Impairment of Assets	To determine whether a non-financial asset is impaired, PBEs apply PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* or PBE IPSAS 26 *Impairment of Cash-Generating Assets*, as appropriate. PBEs are therefore required to designate non-financial assets as either cash-generating or non-cash-generating. Cash-generating assets are those that are held with the primary objective of generating a commercial return. Non-cash-generating assets are assets other than cash-generating assets. The PBE Accounting Standards require the value in use of non-cash-generating assets to be determined as the present value of the remaining service potential using one of the following: the depreciated replacement cost approach; the restoration cost approach; or the service units approach. Under the PBE Accounting Standards property, plant and equipment measured at fair value is not required to be reviewed and tested for impairment.	IFRS does not provide specific guidance for the impairment of non-cash-generating assets. The value in use of an asset or a cash generating unit is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The guidance in IAS 36 *Impairment of Assets* applies to all property, plant and equipment, including those measured at fair value.	Assets whose future economic benefits are not primarily dependent on the asset’s ability to generate cash and which might not be impaired under PBE Accounting Standards might be impaired under IFRS due to limited generation of cash flows. The Group asset values may therefore be higher than under IFRS because some impairment may not be required under PBE Accounting Standards when impairment would be recognised under IFRS. The use of different methods may result in differences in the amount of value in use. The fact that property, plant and equipment measured at fair value is not required to be reviewed and tested for impairment under the PBE Accounting Standards has no significant impact because these assets are subject to sufficiently regular revaluations to ensure that their carrying amount does not differ materially from fair value.

Main differences between IFRS and PBE Accounting Standards (continued)

PBE Accounting Standards with comparable IFRS equivalent (continued)

	PBE	IFRS	Impact
Revenue from non-exchange transactions	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 and grants and subsidies received. Fees and user charges derived from activities that are partially funded by general rates are also considered to be revenue arising from non-exchange transactions. The Group recognises an inflow of resources from a non-exchange transaction as revenue except to the extent that a liability is also recognised in respect of the same inflow. A liability is recognised when a condition is attached to the revenue that requires that revenue to be returned unless it is consumed in the specified way. As the conditions are satisfied, the liability is reduced and revenue is recognised.	IFRS does not contain 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.	Compared to IAS 20, the Group's accounting policy may lead to earlier recognition of revenue from non-exchange transactions; and may also result in differences in asset values in relation to grants related to assets. As a result of adopting PBE IPSAS 23, the timing of recognising the group's rates revenue has changed to recognise annual general rates revenue as 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 contrary to the group's previous accounting policy under NZ IFRS PBE to recognise general rates revenue throughout the annual period. The impact of this difference increases the reported general rates revenue and net assets in the interim financial statements of the group however it has minimal impact on the recognition of revenue and net assets reported in the group's annual financial statements.
Service Concession Arrangements (also known as Public Private Partnership Arrangements)	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).	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) and NZ practice has been for the grantor (public entity) to 'mirror' the accounting treatment of the private entity.	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, 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.

Main differences between IFRS and PBE Accounting Standards (continued)

PBE Accounting Standards with comparable IFRS equivalent (continued)

Service Concession Arrangements (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.

PBE Accounting Standards where the IFRS equivalent is not comparable

The following standards provide guidance on the same topic but are not directly comparable. The comparison below identifies the key recognition and measurement differences.

	PBE	IFRS	Impact
Service Concession Arrangements (also known as Public Private Partnership Arrangements) (continued)	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).		
Consolidated Financial Statements	PBE IPSAS 6 Consolidated and Separate Financial Statements includes guidance on assessing control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and specifies the accounting treatment for interests in other entities in the separate parent financial statements.	IFRS 10 Consolidated Financial Statements contains guidance on assessing control based on principles similar to those in PBE IPSAS 6 and provides additional guidance to assist in the determination of control where this is difficult to assess. IAS 27 Separate Financial Statements specifies the accounting treatment for interests in other entities in the separate parent financial statements.	The Group does not believe that the application of IFRS 10 would result in more or fewer entities being consolidated than under PBE IPSAS 6.
Joint Arrangements	PBE IPSAS 8 Joint Ventures defines three types of joint ventures: jointly controlled assets, jointly controlled operations and joint ventures.	IFRS 11 Joint Arrangements focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures.	The Group does not believe that the application of IFRS 11 would result in a material change to the Group's results and net assets.
Fair Value Measurement	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 IPSAS 29 Financial Instruments: Recognition and Measurement).	IFRS 13 Fair Value Measurement does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.	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 IPSAS 29.

Main differences between IFRS and PBE Accounting Standards (continued)

PBE Accounting Standards where the IFRS equivalent is not comparable (continued)

Employee Benefits	PBE IPSAS 25 *Employee Benefits* is based on IPSAS 25. IPSAS 25 is based on IAS 19 *Employee Benefits (2004)*.	IAS 19 *Employee Benefits (2011)* introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits compared to IAS 19 (2004). The standard also requires net interest expense/income to be calculated as the product of the net defined benefit liability/asset and the discount rate as determined at the beginning of the year.	The Group has no defined benefit obligations and therefore there is no impact on its financial performance and financial position.

Glossary

Activity	The goods or services the council provides.
Advisory panels	Ten advisory panels provide the council with input on relevant issues and support for engaging with the groups and communities they represent. • Auckland City Centre Advisory Panel • Disability Advisory Panel • Ethnic Peoples Advisory Panel • Heritage Advisory Panel • Pacific Peoples Advisory Panel • Rainbow Communities Advisory Panel • Rural Advisory Panel • Seniors Advisory Panel • Youth Advisory Panel Technical Panel • Advisory panel for art in public places
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. 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. The council is made up of the governing body, 21 local boards and the council organisation (operational staff).
Auckland Council Group	The Group consists of the council, and its subsidiaries, 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 the world's most liveable city.
Budget	The itemised formally adopted estimate of expected revenue and expenditure through LTP/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.

Glossary (continued)

Community outcomes	The things the community thinks are important for its current or future social, economic, environmental or cultural well-being. These outcomes are used to help set priorities in the council's 10-year plan.
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.
Deferred capital projects	Capital projects originally planned in previous years, but which have been delayed.
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 to help fund new infrastructure required by growth, as set out in the Local Government Act 2002.
Effective interest rate 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, willingly parties in an arm's length transaction.
Governing body	The governing body is made up of the mayor 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.
Gross operating expenditure	Total expenditure without deductions of depreciation and finance costs.
Housing Infrastructure Fund (HIF)	The government's funding mechanism to assist high growth councils to advance infrastructure projects important to increasing housing supply.
Independent Māori Statutory Board (IMSB)	An independent board established by legislation to promote and advise the council on cultural, economic, environmental and social issues of significance for mana whenua groups and mataawaka of Tāmaki Makaurau. It also ensures that the council acts in accordance with statutory provisions referring to the Treaty of Waitangi.

Glossary (continued)

Infrastructure growth charge	Amount collected from property owners or developers applying for new connections to help fund new infrastructure required by growth.
Joint ventures	Contractual arrangements whereby the council or Group 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, 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 board agreement	An annual agreement between the governing body and each local board outlining its priorities and preferences in its local board plan for the year.
Local board plan	A plan that reflects the priorities and preferences of the communities within the local board area in respect of the level and nature of local activities to be provided by the council over the following three years.
Local Government Act 2002 (LGA 2002)	The act that defines the powers and responsibilities of territorial local authorities such as the council.
Local Government (Financial Reporting and Prudence) Regulations 2014	The act 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 (Auckland Council) Act 2009 (LGACA 2009)	The act establishes the 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 (Rating) Act 2002 (LGRA)	Defines how territorial local authorities such as Auckland Council can assess and apply their rating policy.
Local Government Commission	An independent statutory body whose main role is to make decisions on the structure and representation requirements of local government in New Zealand.
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.

Glossary (continued)

Long-term plan	Also commonly referred to as the LTP and the 10-year plan. This sets out the council's vision, activities, projects, policies, and budgets for a 10-year period.
Operating expenses	Expenditure resulting from normal business operations.
Performance measures	Methods for gauging progress towards the meeting of objectives. Measures usually relate to agreed levels of performance and types of services provided.
Rates	A charge against the property to help fund services and assets the council provides.
Service concession arrangement	A binding arrangement between grantor and operator in which, • 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.
Spatial plan	Known as the Auckland Spatial Plan, or simply as the Auckland Plan.
Subsidiaries	Entities over which the council and group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.
The Southern Initiative (TSI)	A plan that identifies stable housing, job growth, skills development and environmental enhancement in south Auckland.
Unitary Plan	Replaces the existing Regional Policy Statement and 13 district and regional plans.
Ward	An administrative and electoral area of the council. There are 13 in the 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.

Me pēhea te whakapā mai ki te kaunihera
How to contact the council

Online	aucklandcouncil.govt.nz/contactus
Phone	09 301 0101
Post	Auckland Council, Private Bag 92300, Auckland 1142

At a customer service centre	
Albany	30 Kell Drive, Albany
Birkenhead	Corner of Rawene Road and Hinemoa Street, Birkenhead
Browns Bay	Corner of Bute Road and Glen Road, Browns Bay
Central city	Bledisloe House, 24 Wellesley Street, Auckland Central
	35 Graham Street, Auckland Central
Devonport	2 Victoria Road, Devonport
Glen Eden	39 Glenmall Place, Glen Eden
Glenfield	90 Bentley Avenue, Glenfield
Great Barrier Island	75 Hector Sanderson Road, Claris
Helensville	49 Commercial Road, Helensville
Henderson	6 Henderson Valley Road, Henderson
Huapai	296 Main Road (SH16), Huapai
Manukau	Ground Floor, Kotuku House, 4 Osterley Way, Manukau
New Lynn	31 Totara Avenue, New Lynn
Ōrewa	50 Centreway Road, Ōrewa
Papakura	35 Coles Crescent, Papakura
Pukekohe	82 Manukau Road, Pukekohe
Takapuna	1 The Strand, Takapuna
Waiheke Island	10 Belgium Street, Ostend
Waiuku	Corner of King Street and Constable Road, Waiuku
Warkworth	1 Baxter Street, Warkworth
Whangaparāoa	9 Main Street, Whangaparāoa

Visit our website for opening hours and list of services available at each service centre.

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Te Kaunihera o Tāmaki Makaurau