Auckland Council Group Interim Report

31 December 2016

Auckland Council
Te Kaunihera o Tāmaki Makaurau

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Message from the mayor

The people of Auckland have made it very clear that they want to see their council working efficiently. Since the election, I have worked with council executives to ensure that we are setting out a programme that aims to do more with less, by ensuring savings without cutting services.

Our focus is on meeting community expectations for service delivery and supporting Auckland's growth while maintaining a prudent financial strategy.

Immediately following the election, I streamlined the Council committee structure to create a more efficient process for effective decision making. We have also made changes to increase the accountability of Council Controlled Organisations and to ensure that they and Council work in a coordinated and effective way. Council itself needs to operate efficiently and perform to best practice standards.

Auckland's population is growing at an unprecedented rate. Each week our city grows by around 900 extra people or 45,000 extra residents a year. This requires the provision of more services and in particular much greater capital investment in infrastructure to provide for more houses and better public transport. Without these, we will continue to face growing housing unaffordability and traffic congestion.

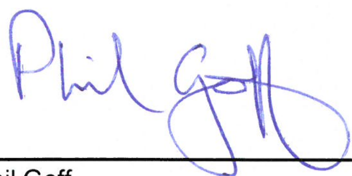
Given the scale of investment required over the medium term, it will be necessary for council to secure a range of revenue sources to keep in step with population growth. We have already commenced conversations with central government to explore what specific sources of infrastructure funding may be available.

Growth is a good thing. It shows Auckland is an attractive place to live. New Zealand also needs an international and globally competitive city for our country to succeed.

Our challenge is to achieve this growth while preserving the quality of life and things that have traditionally been important to us.

The local board members are developing their draft local board plans, ahead of community consultation in May. These plans set out the aspirations for the 21 local board areas for the next three years and beyond, combining the vision for Auckland as a whole with the preferences and priorities of individual communities. I encourage you to have your say.

This time next year we will begin consulting with the public on the Long-term Plan 2018-2028. This will be your opportunity to reflect on Auckland Council's progress to date, and tell us your views on what we should keep doing and what you would like changed so that we can build towards the Auckland you want to live in.



Phil Goff
Mayor
27 February 2017

Message from the chief executive

While the first six months of the year saw significant change on the political front with the election of the mayor, councillors and local board members for the new council term, Auckland Council Group's performance remained consistent and stable, as we followed the course set out by the Annual Plan 2016/2017.

This stability was acknowledged by both Moody's and Standard & Poor's reaffirming the council's credit ratings as Aa2 and AA respectively, with a stable outlook from both.

This affirmation is reflected in our half-year financial results, which include:

- revenue of $2,777 million, ahead of the prior year by $137 million;
- operating surplus before gains and losses of $966 million, against a prior-year surplus of $948 million;
- total net Group debt (after cash on hand) was $7,539 million; and
- total assets amounted to $45.8 billion, an increase of $1.1 billion from 30 June 2016.

Auckland continues to experience unprecedented growth with a net increase of more than 45,000 new residents in 2016, on top of similar growth the previous year. This drives an increase in demand for everyday council services. It also requires significant investment to support new housing developments and transport infrastructure.

To enable this investment, we have a strong focus on value for money and delivering efficiency savings. Through the careful management of funds we have kept the average general rates increase to 2.4%, which was as low as possible while still being able to deliver all the things you told us were important during last year's annual plan consultation.

Meanwhile, the proportion of revenue we collected from sources other than rates increased by 7% for the six months to 31 December 2016 compared to the same period last year. We are looking at ways to increase this non-rates revenue, so that more services are funded by the people that use them. Along with control over our costs, we continue to manage our finances prudently.

We are providing more capacity to increase Auckland's housing supply. A major achievement was the adoption of the Unitary Plan, which was made partly operative, replacing the legacy plans except where there are unresolved appeals.

In partnership with central government, the council finalised an extension to the existing Auckland Housing Accord. To date, Special Housing Areas (SHAs) have been the catalyst for the consenting of 7,102 sites and dwellings that will provide a range of housing choices for Aucklanders.

We have also made progress on many large-scale projects that are essential to meeting demand as Auckland grows.

One highlight came in September when the council and central government entered into a Heads of Agreement for the equal co-funding and delivery of the City Rail Link (CRL). This is a transformative project which will greatly increase the capacity of Auckland's transport network.

Working alongside central government, we released the Auckland Transport Alignment Project (ATAP) report in September. The report sets out a direction and indicative investment package for the development of Auckland's transport system across all modes of travel over the next 30 years and recommends increasing investment in transport in the next decade.

Some improvements are here already. The southern portion of the New Network, which is transforming bus and rail services into an integrated network, was launched in October, coinciding with the opening of the $28 million Ōtāhuhu Station.

We are continuing our investment with less visible but equally important infrastructure too. The Northern Interceptor wastewater pipeline, which is at the detailed planning and consent stage, will divert wastewater from Māngere to Rosedale, providing capacity for housing growth in northwest, central and south Auckland.

Message from the chief executive (continued)

We supported the wellbeing of our communities with events such as Matariki Festival, Urbanesia and Auckland Heritage Festival, and are providing social and cultural opportunities through the development of facilities such as Albany Pool and the new Australian precinct at Auckland Zoo.

We are also in the midst of a line-up of stadium concerts that will boost Auckland's economy by an estimated $32 million.

The business innovation hubs in Eden Terrace and Wynyard Quarter that we have facilitated are contributing value, and enhancing Auckland's reputation for fostering development in the technology sector.

The latest JobFest successfully matched 147 young people with employers, a great outcome that is building the foundation for a future of prosperity and innovation for Auckland.

The pressures and challenges facing Auckland mean that council needs to step up and deliver a higher level of performance to our customers, citizens and the community. We have implemented the council's first performance plan, which gives us clear goals, priorities and a roadmap for the next three years. We've published our plan so that we are transparent about our priorities and demonstrate our dedication to becoming a great council. This is available at aucklandcouncil.govt.nz/performanceandtransparency.

Stephen Town
Chief Executive
27 February 2017

Financial commentary

Auckland Council Group (the Group) continues to manage its finances prudently in line with the prior year and with close oversight over operational and capital expenditure.

Comparison of results to the six months ending 31 December 2015

Auckland Council Group generated operating surplus before gains and losses of $966 million for the first six months to 31 December 2016, an increase of $18 million or 2% on the same period last year.

Total revenue has increased by $137 million and was largely due to:

- increase in rates of $63 million or 4% which is in line with the annual budget comprising planned rates increases of 2.4% and rating base growth of 1.73%;
- public transport revenue increasing by $30 million primarily due to a change in the Public Transport Operating Model. The model has been revised so that all fare revenue and operating costs of the Public Transport Operators are recorded by Auckland Transport, as opposed to the previous agreement where only Auckland Transport's share of the revenue was recorded.
- increase in grants and subsidies by $23 million due to grants received from central government by Auckland Transport for continuous growth in transport infrastructure; and
- higher consents revenue and development contributions of $18 million due to ongoing growth in new housing developments.

The above are partially offset by the lower vested asset revenue this period driven by the timing of the completion of infrastructure assets.

Total expenditure increased by $119 million and was driven by the following items:

- higher depreciation and amortisation of $28 million as a result of capitalisation of property, plant and equipment over the last twelve months. This is however down on the annual plan due to delays in completion of several capital projects;
- higher employee benefits of $18 million for additional staff to support delivery of services and projects, and a cost of living increase;
- higher other operating expenses of $69 million mainly driven by:
  - the recognition of $38 million gross costs incurred on transport operation contracts as a result of the new Public Transport Operating Model;
  - additional weathertightness costs of $11 million; and
  - higher professional and consultancy costs $8 million driven by large operational projects such as seismic screening, cycling and regional safety.

Net other gains of $373 million was mainly due to rising long term interest rates resulting in an increase in the fair value of financial instruments. The Group continues to actively manage its interest rate exposure to provide certainty over the Group's interest costs in the medium and long-term.

Comparison to statement of financial position at 30 June 2016

The total Group net assets increased by $1.3 billion from 30 June 2016. The following contributed to the increase:

- increase in receivables of $776 million due to the timing of rates receipts from ratepayers;
- net investment in property, plant and equipment of $336 million;
- decrease in the fair value of net derivative financial liabilities by $349 million;

offset by:

- an increase in borrowing of $149 million; and
- draw down of diversified financial assets of $100 million.

During the six month period to 31 December 2016, the Group invested $713 million to expand and renew community and infrastructure assets. This was funded by net operating cashflows of $494 million and the balance from borrowings.

Statement of comprehensive revenue and expenditure

For the six months ended 31 December 2016

$million	Note	Unaudited 6 months to 31 Dec 2016	Unaudited 6 months to 31 Dec 2015	Audited 12 months to 30 Jun 2016
Revenue				
Rates		1,628	1,565	1,564
Fees and user charges		596	551	1,083
Grants and subsidies		223	200	404
Development and financial contributions		78	68	131
Other revenue		128	119	260
Vested assets		116	130	247
Finance revenue		8	7	16
Total revenue excluding other gains	2	**2,777**	**2,640**	**3,705**
Expenditure				
Employee benefits		416	398	803
Depreciation and amortisation		430	402	828
Grants, contributions and sponsorship		97	94	126
Other operating expenses		657	588	1,281
Finance costs		211	210	417
Total expenditure excluding other losses		**1,811**	**1,692**	**3,455**
Operating surplus before gains and losses		**966**	**948**	**250**
Net other gains/(losses)	3	373	(87)	(552)
Share of surplus in associates and joint ventures		32	28	63
Surplus/(deficit) before income tax		**1,371**	**889**	**(239)**
Income tax expense/(benefit)		35	9	(8)
Surplus/(deficit) after income tax		**1,336**	**880**	**(231)**
Other comprehensive revenue/(expenditure)				
Net gain on revaluation of property, plant and equipment		-	-	1,626
Tax on revaluation of property, plant and equipment		-	-	(4)
Movement in cash flow hedge reserve		6	-	(9)
Tax on movement in cash flow hedges		(1)	-	2
Share of associates and joint ventures' reserves		2	-	171
Net unrealised gain on revaluation of financial assets classified as available-for-sale		4	-	2
Total other comprehensive revenue		**11**	**-**	**1,788**
Total comprehensive revenue		**1,347**	**880**	**1,557**

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 31 December 2016

$million	Note	Unaudited as at 31 Dec 2016	Unaudited as at 31 Dec 2015	Audited as at 30 Jun 2016
Assets				
Current assets				
Cash and cash equivalents		222	269	137
Receivables and prepayments	2	1,045	975	275
Derivative financial instruments	4	1	2	-
Other financial assets		294	369	389
Inventories		35	24	28
Income tax receivables		1	-	1
Non-current assets held-for-sale		85	27	43
Total current assets		**1,683**	**1,666**	**873**
Non-current assets				
Receivables and prepayments	2	30	27	24
Derivative financial instruments	4	183	163	263
Other financial assets		131	114	128
Property, plant and equipment		41,492	39,154	41,156
Intangible assets		493	488	478
Biological assets		2	2	2
Investment property		653	571	681
Investment in associates and joint ventures		1,083	899	1,074
Total non-current assets		**44,067**	**41,418**	**43,806**
Total assets		**45,750**	**43,084**	**44,679**
Liabilities				
Current liabilities				
Bank overdraft		1	5	9
Payables and accruals		602	497	607
Employee entitlements		92	87	90
Borrowings		1,546	880	1,447
Derivative financial instruments	4	4	34	7
Provisions		93	97	101
Total current liabilities		**2,338**	**1,600**	**2,261**
Non-current liabilities				
Payables and accruals		50	43	45
Employee entitlements		5	5	5
Borrowings		6,214	6,530	6,164
Derivative financial instruments	4	782	575	1,207
Provisions		271	295	290
Deferred tax liabilities		1,091	1,077	1,055
Total non-current liabilities		**8,413**	**8,525**	**8,766**
Total liabilities		**10,751**	**10,125**	**11,027**
Net assets		**34,999**	**32,959**	**33,652**
Equity				
Contributed capital		26,728	26,728	26,728
Accumulated funds		1,632	1,404	290
Reserves		6,639	4,827	6,634
Total equity		**34,999**	**32,959**	**33,652**

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 six months ended 31 December 2016

1 July 2016 to 31 December 2016 Unaudited $million	**Contributed equity**	**Accumulated funds**	**Reserves**	**Total equity**
Balance as at 1 July 2016	**26,728**	**290**	**6,634**	**33,652**
Surplus after income tax	-	1,336	-	**1,336**
Other comprehensive revenue	-	-	11	**11**
Total comprehensive revenue	**-**	**1,336**	**11**	**1,347**
Transfers to/(from) reserves	-	6	(6)	-
Balance as at 31 December 2016	**26,728**	**1,632**	**6,639**	**34,999**
1 July 2015 to 31 December 2015 Unaudited $million				
Balance as at 1 July 2015	**26,728**	**517**	**4,834**	**32,079**
Surplus after income tax	-	880	-	880
Total comprehensive revenue	**-**	**880**	**-**	**880**
Transfers to/(from) reserves	-	7	(7)	**-**
Balance as at 31 December 2015	**26,728**	**1,404**	**4,827**	**32,959**
1 July 2015 to 30 June 2016 Audited $million				
Balance as at 1 July 2015	**26,728**	**517**	**4,834**	**32,079**
Deficit after income tax	-	(231)	-	(231)
Other comprehensive revenue	-	-	1,788	1,788
Total comprehensive (expediture)/revenue	**-**	**(231)**	**1,788**	**1,557**
Found assets	-	16	-	**16**
Transfers (from)/to reserves	-	(12)	12	**-**
Balance as at 30 June 2016	**26,728**	**290**	**6,634**	**33,652**

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 six months ended 31 December 2016

$million	Note	Unaudited 6 months to 31 Dec 2016	Unaudited 6 months to 31 Dec 2015	Audited 12 months to 30 Jun 2016
Cash flows from operating activities				
Receipts from customers, rates, grants and other services		1,796	1,699	3,453
Interest received		7	6	13
Dividends received		2	35	49
Payments to suppliers and employees		(1,111)	(1,085)	(2,324)
Interest paid		(200)	(218)	(420)
Net cash inflow from operating activities	11	**494**	**437**	**771**
Cash flows from investing activities				
Sale of property, plant and equipment, investment property and intangible assets		42	9	22
Purchase of property, plant and equipment, investment property and intangible assets		(741)	(644)	(1,340)
Acquisition of other financial assets		(52)	(39)	(76)
Proceeds from sale of other financial assets		136	57	59
Advances to external parties		2	(15)	(3)
Net cash outflow from investing activities		**(613)**	**(632)**	**(1,338)**
Cash flows from financing activities				
Proceeds from borrowings		858	952	1,994
Repayment of borrowings		(646)	(830)	(1,635)
Repayment of finance lease principal		-	-	(1)
Net cash inflow from financing activities		**212**	**122**	**358**
Net increase in cash and cash equivalents and bank overdraft		**93**	**(73)**	**(209)**
Opening cash and cash equivalents and bank overdraft		128	337	337
Closing cash and cash equivalents and bank overdraft		**221**	**264**	**128**

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

Notes to the financial statements (unaudited)

1 Statement of significant accounting policies

Reporting entities

Auckland Council (the council) is a local authority domiciled in New Zealand and governed by the Local Government Act 2002, the Local Government (Auckland Council) Act 2009 and the Local Government (Rating) Act 2002. The council is a FMC Reporting Entity under the Financial Market Conducts 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 council-controlled organisations (CCOs), associates and joint ventures. All entities are domiciled in New Zealand. The substantive CCOs of the group comprise of:

- Auckland Council Investments Limited
- Auckland Tourism, Events and Economic Development Limited
- Auckland Transport
- Development Auckland Limited
- Regional Facilities Auckland
- Watercare Services Limited

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

Statement of compliance

These interim financial statements are for the six months ended 31 December 2016 and have been prepared for the Group only and are to be read in conjunction with the annual report for the year ended 30 June 2016. They are prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and they comply with PBE IAS 34 *Interim Financial Reporting*. The financial results for the six month period ended 31 December 2016 are unaudited however they have been subject to a review by the auditors, pursuant to the New Zealand Standard on Review Engagements 2410.

Basis of preparation

The interim financial statements have been prepared on a going concern basis and the accounting policies applied are consistent with those used at 30 June 2016.

The interim financial statements are presented in New Zealand dollars (NZD), which is the functional currency of each of the Group's entities, and are rounded to the nearest million dollars, unless otherwise stated. All items in the interim financial statements are stated exclusive of Goods and Services Tax (GST), except for receivables and payables, which include GST invoiced.

Accounting judgments, estimates and assumptions

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2016.

Notes to the financial statements (unaudited)

2 Exchange and non-exchange transactions

Revenue is classified as exchange or non-exchange based on the funding of the underlying activity which generates the revenue.

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

Revenue

$million	6 months to 31 Dec 2016	6 months to 31 Dec 2015	12 months to 30 Jun 2016
Revenue from non-exchange transactions:			
Revenue from rates			
General	1,444	1,390	1,391
Targeted	178	172	172
Penalties	10	9	15
Rates remissions	(3)	(3)	(11)
Discounts	(1)	(3)	(3)
Total revenue from rates	**1,628**	**1,565**	**1,564**
Revenue from transfers			
Sale of goods and services	150	119	194
Vested assets	116	130	247
Operating grants	139	130	251
Capital grants	84	70	153
Consents, licences and permits	96	88	157
Fines and infringements	17	17	32
Other transfer revenue	43	19	94
Total revenue from transfers	**645**	**573**	**1,128**
Total revenue from non-exchange transactions	**2,273**	**2,138**	**2,692**
Revenue from exchange transactions:			
Water and wastewater	223	220	443
Port operations	106	103	204
Development and financial contributions	78	68	131
Finance revenue	8	7	16
Dividends received	5	14	27
Sales of goods and services	4	4	51
Other exchange revenue	80	86	141
Total revenue from exchange transactions	**504**	**502**	**1,013**
Total revenue	**2,777**	**2,640**	**3,705**

Receivables and prepayments

$million	As at 31 Dec 2016	As at 31 Dec 2015	As at 30 Jun 2016
Current			
Receivables from non-exchange transactions	893	820	128
Receivables from exchange transactions	152	155	147
Total current receivables and prepayments	**1,045**	**975**	**275**
Non-current			
Receivables from non-exchange transactions	8	7	3
Receivables from exchange transactions	22	20	21
Total non-current receivables and prepayments	**30**	**27**	**24**

Notes to the financial statements (unaudited)

3 Net other gains and losses

$million	6 months to 31 Dec 2016	6 months to 31 Dec 2015	12 months to 30 Jun 2016
Net change in fair value of derivative financial instruments	331	(155)	(661)
Net foreign exchange gains recognised in surplus/(deficit) on financial instruments held at amortised cost	32	80	122
Net increase/(decrease) in financial instruments designated at fair value through surplus/(deficit)	9	-	(15)
Net gains/(losses) on disposal of property, plant and equipment and intangible assets	2	(8)	(49)
Impairment of investment in associates and joint ventures	(1)	-	(1)
Net increase/(decrease) in fair value of investment property	-	(4)	62
Impairment of property, plant and equipment and intangible assets	-	-	(10)
Total net other gains/(losses)	**373**	**(87)**	**(552)**

4 Derivative financial instruments

The Group has entered into derivative financial instrument contracts to hedge exposure to fluctuations in interest rates and foreign exchange rates in accordance with approved financial risk management policies.

$million	Notional			Fair Value		
	As at 31 Dec 2016	As at 31 Dec 2015	As at 30 Jun 2016	As at 31 Dec 2016	As at 31 Dec 2015	As at 30 Jun 2016
Derivative assets						
Interest rate swaps						
Cash flow hedge	15	-	-	1	-	-
Fair value through surplus/deficit	2,735	1,560	1,475	57	26	57
Forward foreign currency contracts						
Cash flow hedge	43	12	-	1	-	-
Fair value through surplus/deficit	31	4	1	1	-	-
Cross currency interest rate swaps						
Fair value through surplus/deficit	796	-	1,022	124	139	206
Total derivative assets	**3,620**	**1,576**	**2,498**	**184**	**165**	**263**
Derivative liabilities						
Interest rate swaps						
Cash flow hedge	155	210	225	8	7	12
Fair value through surplus/deficit	8,407	7,859	9,098	684	539	1,163
Forward foreign currency contracts						
Cash flow hedge	53	3	54	2	-	3
Fair value through surplus/deficit	3	4	45	-	-	2
Cross currency interest rate swaps						
Fair value through surplus/deficit	1,103	1,543	535	92	63	34
Total derivative liabilities	**9,721**	**9,619**	**9,957**	**786**	**609**	**1,214**

Notes to the financial statements (unaudited)

5 Property, plant and equipment

$million	6 months to 31 Dec 2016	6 months to 31 Dec 2015	12 months to 30 Jun 2016
Additions	779	650	1,455
Net disposals and transfers to non-current assets held-for-sale	(37)	(26)	(75)
Capital commitments	1,290	943	1,073

The group capital commitments have increased by $217 million since 30 June 2016 primarily due to new commitments in respect of the CRL project.

On 14 September 2016, the council and the Crown entered into a Heads of Agreement of the equal co-funding and delivery of the CRL project. The total cost of the project is estimated to be between $2.8 billion and $3.4 billion. Specific implementation details will be agreed in a “Sponsors Agreement”, which is expected to be signed by June 2017, to establish a separate legal entity to manage the project and will be jointly owned by the council and the Crown. No transactions arising from this arrangement were recognised by the Group at 31 December 2016 as the terms of the Sponsors Agreement have not yet been finalised and the agreement is therefore not yet effective.

There have been no material changes in fair value for property, plant and equipment between 30 June 2016 and 31 December 2016.

6 Investment in other entities

On 19 December 2016, the Housing for Older People Limited Partnership (HFOP LP) was registered with the council and the Selwyn Foundation (Selwyn) as limited partners and HFOP Management Limited as its general partner. The primary business of HFOP LP is to provide social rental housing, primarily for older people in New Zealand. The council and Selwyn have 49% and 51% partnership interest/shares, respectively. The council will receive significant benefits from the arrangement, being an improvement in the management of, and quality of, its HFOP portfolio, in furtherance of its social objectives through Selwyn’s expertise.

HFOP LP will commence operations on 1 July 2017 conditional upon obtaining its Community Housing Provider registration by that date from the Community Housing Regulatory Authority of the Ministry of Business, Innocation & Employment. No transactions that impact the Group as at 31 December 2016 were recorded for HFOP LP.

There have been no other material changes in the Group’s investments in associates and joint ventures during the six months to 31 December 2016.

7 Net tangible assets

Net tangible assets per $1,000 of listed bonds at 31 December 2016 is $25,466 (31 December 2015: $35,105, 30 June 2016: $28,233).

8 Provisions

There have been no material changes in provisions between 30 June 2016 and 31 December 2016.

9 Contingencies

The council is a shareholder and guarantor of the Local Government Funding Agency (LGFA). During the six months ended 31 December 2016, the Group’s cross-guarantee on LGFA’s other borrowings has increased by $655 million to $5 billion. The Group considers the risk of the LGFA defaulting on repayment of interest or capital to be very low.

Notes to the financial statements (unaudited)

9 Contingencies (continued)

In April 2013 the Ministry of Education (MOE) and others (together the MOE) initiated High Court proceedings against Carter Holt Harvey (CHH) alleging inherent defects in the cladding sheets and cladding systems manufactured and prepared by CHH. Subsequently in December 2016, CHH commenced third party claims against 47 local Councils, including Auckland Council, alleging a breach of duty by Councils in respect of the building consent process. MOE's claim against CHH is for 880 school buildings of which 50 are located within Auckland, and at present there is insufficient information to conclude on potential liability and claim quantum, if any.

A number of organisations within New Zealand have identified issues with the calculation of leave entitlement under the Holidays Act 2003. Auckland Council has contracted external consultants to complete a detailed analysis of the Council's payroll system. Preliminary reviews identified issues in the calculation of certain leave entitlements. Further work is now being undertaken, at present there is insufficient information to quantify the Council's potential liability.

There have been no other material changes in contingencies between 30 June 2016 and 31 December 2016, including the Group's estimated obligation for weathertightness claims.

10 Related parties

There have been no significant related party transactions that were not on an arm's length basis between 1 July 2016 and 31 December 2016.

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

$million	6 months to 31 Dec 2016	6 months to 31 Dec 2015	12 months to 30 Jun 2016
Surplus/(deficit) after income tax	**1,336**	**880**	**(231)**
Add/(less) non-cash items:			
Depreciation and amortisation	430	402	829
Net change in fair value of financial instruments	(363)	75	554
Vested assets	(116)	(130)	(247)
Share of surplus in associates and jointly-controlled entities (net of dividends received)	(32)	(7)	(18)
Time value adjustments	7	7	13
Impairment of property, plant and equipment, receivables and other assets	2	-	28
Net (gain)/loss on disposal of property, plant and equipment and intangible assets	(2)	8	49
Net (increase)/decrease in fair value of investment property	-	4	(62)
Other non-cash revenue	(4)	(1)	(22)
Less items classified as investing or financing activities	**(30)**	**(13)**	**(58)**
Add/(less) movements in working capital items	**(734)**	**(788)**	**(64)**
Net cash inflow from operating activities	**494**	**437**	**771**

Notes to the financial statements (unaudited)

12 Treasury management

$million	As at 31 Dec 2016	As at 31 Dec 2015	As at 30 Jun 2016
Borrowings	7,760	7,410	7,611
Add bank overdraft	1	5	9
Less cash and cash equivalents	(222)	(269)	(137)
Total borrowings and bank overdraft less cash and cash equivalents	**7,539**	**7,146**	**7,483**

The following table demonstrates the Group's debt maturity profile.

Debt Maturity	As at 31 Dec 2016	As at 31 Dec 2015	As at 30 Jun 2016
< 3 years	38%	32%	39%
3-6 years	20%	24%	27%
6-10 years	28%	23%	21%
> 10 years	14%	21%	13%
Total	**100%**	**100%**	**100%**

To provide certainty of future interest payments, the Group has entered into both medium and long term interest rate swaps.

There were no defaults or breaches on any borrowing arrangement during the period (31 December 2015: nil; 30 June 2016: nil).

13 Events after the reporting period

There were no material events after the reporting period that would require adjustment or disclosure for the Group.

Independent Reviewer's Report

To the readers of Auckland Council Group's Interim Financial Statements for the six months ended 31 December 2016

I am the auditor of Auckland Council and its subsidiaries (together, the Auckland Council Group). I have used my staff and appointed auditors and their staff to carry out a review of the Auckland Council Group's interim financial statements for the six months ended 31 December 2016.

I have reviewed the interim financial statements of the Auckland Council Group on pages 6 to 15 that comprise the statement of financial position as at 31 December 2016, the statement of comprehensive revenue and expenditure, statement of changes in equity and statement of cash flows for the six months ended on that date, and the notes to the interim financial statements that include the accounting policies and other explanatory information.

Conclusion

Based on my review, which is not an audit, nothing has come to my attention that causes me to believe that the Auckland Council Group's interim financial statements do not:

- comply with generally accepted accounting practice in New Zealand in accordance with PBE IAS 34: *Interim Financial Reporting*; or
- present fairly, in all material respects:
  - Auckland Council Group's financial position as at 31 December 2016; and
  - the results of its operations and cash flows for the six months ended on that date.

My review was completed on 27 February 2017. This is the date at which my conclusion is expressed.

The Council's responsibilities and my responsibilities as reviewer

The Council is responsible for preparing interim financial statements in accordance with New Zealand law and generally accepted accounting practice, including PBE IAS 34: *Interim Financial Reporting*, which present fairly the financial position of the Auckland Council Group as at 31 December 2016 and the results of operations and cash flows for the six months ended on that date.

The Council is also responsible for such internal control as it determines is necessary to enable it to prepare interim financial statements that are free from material misstatement.

I am responsible for reviewing the interim financial statements and providing an independent report to you based on the procedures performed by my staff and appointed auditors and their staff.

I carried out the review in accordance with NZ SRE 2410: *Review of Financial Statements Performed by the Independent Auditor of the Entity* issued by the External Reporting Board, which requires me to conclude whether anything has come to my attention that causes me to

believe that the interim financial statements, taken as a whole, have not been prepared in all material respects, in accordance with generally accepted accounting practice in New Zealand.

I carried out my review in accordance with the ethical requirements relevant to the audit of financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. My work was limited primarily to enquiries of Auckland Council's personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. I have not performed an audit and, accordingly, I do not express an audit opinion. Also, I did not evaluate the security and controls over the electronic publication of the interim financial statements.

Independence

When carrying out this review, my staff, and appointed auditors and their staff followed the Auditor-General's independence requirements, which incorporate the independence requirements of the External Reporting Board.

As an Officer of Parliament, I am constitutionally and operationally independent of the Auckland Council and the Auckland Council Group.

In addition to this review, I and my staff or appointed auditors and their staff have carried out the following:

- the audit of the Auckland Council and the Auckland Council's Group's financial statements, activity statements, other information and local board reports contained in its annual report for the year ended 30 June 2016;
- an assurance engagement in respect of information provided by the Council and Auckland Council Group as required by the terms of its foreign borrowings programme;
- a limited assurance engagement in respect to the Auckland Council's Debenture Trust Deed and Master Trust Deed reporting certificates; and
- two review of service performance audits as required by s104 of the Auckland Council legislation. A performance audit of the Council's complaints-handling process and a follow up on the progress made by Watercare Services Limited in response to recommendations made in our 2014 report.

Other than these engagements, and in exercising my functions and powers under the Public Audit Act 2001 as the auditor of public entities, I have no relationship with, or interests in the Auckland Council or any of its subsidiaries.

Greg Schollum
Deputy Auditor-General
Wellington, New Zealand

Summary of Waivers Granted by NZX

NZX Limited (NZX) has granted Auckland Council various waivers, being waivers related to:

- Listing Rule 5.1.2(j) (decision published by NZX on 26 August 2010);
- Listing Rule 6.3.2 and 11.1.1 (decision published by NZX on 10 December 2012);
- Listing Rule 10.4.1(b) and 10.4.4 (decision published by NZX on 3 October 2014);
- Listing Rule 3.2.1(d) (decision published by NZX on 3 March 2015); and
- Listing Rule 5.2.3 (decision published by NZX on 29 September 2016).

Listing Rule 5.2.3

NZX has granted Auckland Council a waiver from Listing Rule 5.2.3 in respect of the AKC090s (which are part of a series of bond offers under its bond programme) for a period of one year from 30 September 2016 to the extent that this Listing Rule requires the AKC090 bonds to be held by at least 100 Members of the Public holding at least 25% of the AKC090s on issue.

NZX granted the waiver on the condition that, for the period of the waiver, AKC090s are held by at least 80 Members of the Public holding at least 15% of the AKC090s on issue, with each Member of the Public holding at least a Minimum Holding. Auckland Council must provide NZX with a written update of the total number of the Members of the Public holding at least a Minimum Holding of the AKC090s, and the percentage of AKC090s held by Members of the Public holding at least a Minimum Holding following Auckland Council's Financial Year end.

For details of other waivers, please refer to the 30 June 2016 annual report.

Other exchange listings

In addition to NZX, Auckland Council Group also has bonds listed on the Singapore Exchange (SGX) and SIX Swiss Exchange.

The SIX 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 mainly 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 in 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	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 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 that have no IFRS equivalent

	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). 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.	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 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.
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.

Find out more: **phone 09 301 0101**
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Auckland Council
Te Kaunihera o Tāmaki Makaurau