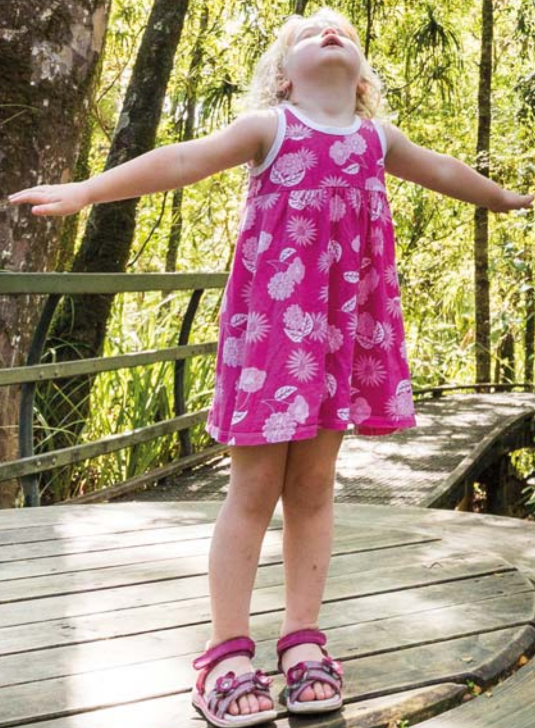
Pūrongo Taupua a te Rōpū Kaunihera o Tāmaki Makaurau

31 O HAKIHEA 2018

AUCKLAND COUNCIL

Group Interim Report

31 December 2018



Auckland Council
Te Kaunihera o Tāmaki Makaurau

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ON THE COVER: Girl amongst Kauri Trees

Photographer: Alex Wallace / Photo New Zealand

Kauri are native New Zealand trees that live for more than 2,000 years, grow to more than 50 metres tall and have trunk girths up to 16 metres. Kauri is taonga, and Māori regard it as a rangatira (chiefly) species because of its ecosystem-supporting role. Many other species depend on it.

Kauri dieback disease is threatening the survival of our kauri. The Group has taken significant steps to reduce the spread of kauri dieback in the Waitākere Ranges and Hunua Ranges regional parks and through the collection of the natural environment targeted rate continues to fund programmes to ensure the survival of this species in Auckland.

Mihi

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

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

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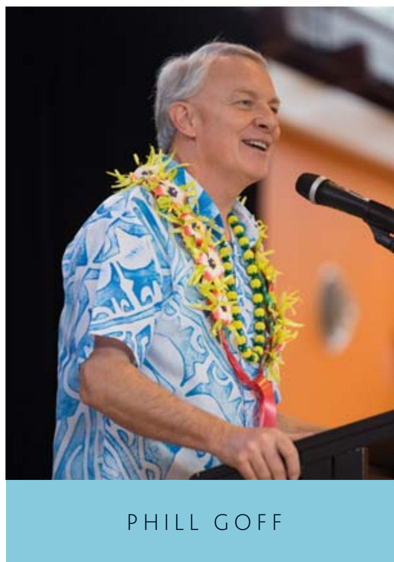
He karere nā te koromātua
Message from the mayor

Auckland Council Group is focused on making Auckland a world-class city, dealing with the challenges of traffic congestion, housing affordability and protecting our environment.

Auckland Council Group is focused on making Auckland a world-class city, dealing with the challenges of traffic congestion, housing affordability and protecting our environment.

In addressing historical underinvestment in Auckland's infrastructure, the Group has worked with government to deliver record levels of investment in our transport and water networks and developed new targeted rates to invest in our environment, cleaning up our beaches and protecting our native species such as Kauri.


PHILL GOFF

Over the next ten years, the Group will manage the largest ever capital investment in Auckland's history. It will enable new water infrastructure to reduce wastewater overflows into our harbours by up to 90 per cent. It will deliver major transport projects like the City Rail Link and the eastern busway and expand public transport links and walking and cycling facilities to help free-up Auckland's roads and deal with congestion which costs our region $1 billion - $2 billion each year in lost productivity.

We are transforming Auckland, developing new communities with thousands more houses in the North, South and West of our city. This year, we're investing $1.1 billion which includes acquiring and developing parks and open space, increasing pedestrian areas in our central city and town centres, and supporting and enhancing our regional facilities.

It is an incredible amount of work and will ensure Auckland can be the international, world class city it ought to be.

With a huge capital investment programme underway and a rapidly increasing population, the Group is focused on being effective and efficient.

We have kept average general rates rises low and reasonable at 2.5 per cent while broadening our revenue base with new targeted rates for the environment and a regional fuel tax. We have a programme of work underway to achieve the potential $500 million in benefits identified in the Group's Value for Money reviews.

The continued retention of the Group's AA credit rating reflects the Group's prudent fiscal management, balancing the need for increased investment and service delivery with our duty to the ratepayer to ensure maximum value for money.

Having agreed in our 10-year Budget the investment and plans necessary to deliver a world class Auckland, the focus this year is on delivery, and in the last six months the Group has invested $917 million in areas including public transport and roading, community services assets, water and waste water infrastructure.

For New Zealand to succeed, Auckland must succeed, and the work underway will help to ensure our region is a great place to live, work and play that can continue to deliver for New Zealand.

Hon Phil Goff
Mayor of Auckland
28 February 2019

He karere nā te tumu whakarae

Message from the chief executive

The half-year financial report reflects the group's effectiveness in balancing investment with the pressure of sustained population growth and demand for the Group's services and resources.

As Auckland continues to grow, putting increased demands on the infrastructure requirements within the Auckland region, the Auckland Council Group has achieved a positive operating result. At the half-year stage, the group has an operating surplus higher than budgeted and better than the same period last year.

Key achievements include:

- Revenue of $3,261 million, ahead of the prior year by $258 million.
- Surplus after income tax of $1,039 million, compared to the 31 December 2017 surplus of $976 million.
- Total net group debt (after cash on hand) was $8,285 million, which has increased by $63 million in the last six months.
- Total assets amounted to $52,400 million, an increase of $938 million from 30 June 2018.

Rates revenue increased by $80 million compared to the 6-month period to 31 December 2017 due primarily to a general rates increase of 2.5 per cent, the new water quality and natural environment targeted rates, as well as an increase in the rating base.

During the last six months the Group invested in the following significant priority areas: $268 million in public transport and roading, $160 million in water and waste water infrastructure, and $128 million in community services assets.

STEPHEN TOWN

The Group's credit ratings of AA from Standard and Poor's and Aa2 from Moody's were reaffirmed in October 2018. Both credit ratings remain on stable outlook. This reflects the Group's sound financial management practices and prudent debt strategy.

Our challenge is to balance the costs of delivering and maintaining services and resources against the infrastructure investment demands of a growing city, particularly in the light of the difficulties being experienced in the construction and infrastructure sector around both the availability and cost of resources. The continued commitment of the staff throughout the Group, as well as our effective approach and ongoing management of debt, is reflected in these results.

Stephen Town
Chief Executive
28 February 2019

He kōrero mō te tahua pūtea

Financial commentary

Auckland Council Group (the Group) interim report as at 31 December 2018 is unaudited. The results reflect the Group's ongoing commitment to managing its finances prudently while delivering community services and critical infrastructure to support Auckland's growth.

Comparison of results for the six months ended 31 December 2018 to the same period last year

Auckland Council Group generated an operating surplus after income tax of $1,039 million for the first six months to 31 December 2018, an increase of $63 million or 6% on the same period last year.

Total revenue excluding gains has increased by $258 million and was largely due to:

- an increase in rates of $80 million or 5% which comprises planned general rates increases of 2.5% and a rating base growth of 2% from population growth and the implementation of new water quality and natural environment targeted rates partly offset by the removal of Interim Transport Levy;
- continuous infrastructure growth in Auckland contributing to:
  - higher vested asset revenue of $53 million driven by higher volumes of completed infrastructure;
  - higher development and financial contributions of $7 million; and
  - higher water-related infrastructure growth charges income of $7 million driven by increased development activities
- an increase in fees and user charges of $32 million mainly due to increased public transport patronage and higher volumes of water and wastewater;
- collection of the regional fuel tax totalling $78 million; and
- an increase in rental income of $7 million mainly from assets in our economic development portfolio, and commercial rents received by the recently acquired Maritime Museum.

The above increase was partly offset by:

- decrease in finance revenue of $15 million due to the prior year being unusually high as it included a one-off reimbursement of finance charges from the Crown in relation to City Rail Link.

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

Total expenditure excluding losses increased by $97 million and was driven by the following:

- higher depreciation and amortisation of $31 million as a result of capitalisation of property, plant and equipment for the last 12 months;
- higher employee benefits of $9 million for additional staff to support delivery of services and projects, and as a result of annual salary and living wage increases; and
- higher operating costs incurred by:
  - Auckland Transport ($25 million) due to continued growth in public transport; and
  - Auckland Council ($23 million) mainly due to:
    - growth in water quality and natural environment initiatives for which targeted rates were implemented; and
    - growth in the building consents costs as Auckland builds become more complex due to intensification.

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

The increase in net other losses of $72 million compared to the prior period were mainly due to lower long-term interest rates resulting in a decrease 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.

He kōrero anō mō te tahua pūtea

Financial commentary (continued)

Comparison to statement of financial position at 30 June 2018

The total net assets increased by $1,034 million from 30 June 2018 to $39.8 billion. The increase was mainly as a result of:

- an increase in receivables and prepayments of $797 million. This is due to annual rates being recognised in full at the beginning of the financial year at the time of issuance of rating notices; and
- a net increase in property, plant and equipment, investment property and intangible assets of $582 million which reflects our ongoing investment in community and infrastructure assets.

The above increase was partly offset by:

- an increase in borrowings, net of cash and cash equivalents, of $63 million;
- a net increase in the fair value of the Group's net derivative financial liabilities position of $238 million;
- increase in provisions of $12 million due to net increase in the provision for remediation of weathertightness claims of $31 million partly offset against a decrease in provisions related to preparation of the Viaduct precinct for America's Cup;
- a decrease in non-current assets held of sale of $23 million mainly due to sale of non-strategic assets; and
- an increase in deferred tax liabilities of $20 million from Watercare mainly due to accelerated tax depreciation.

During the six month period to 31 December 2018, the Group invested (on a cash basis) $917 million primarily to expand and renew community and infrastructure assets. This was funded by net operating cashflows of $678 million with the balance being funded from borrowings and other investing cash flows.

Tauāki mō ngā moni whiwhi me ngā whakapaunga pūtea

Statement of comprehensive revenue and expenditure

For the six months ended 31 December 2018

$million	Note	Unaudited 6 months to 31 Dec 2018	Unaudited 6 months to 31 Dec 2017	Audited 12 months to 30 Jun 2018
Revenue				
Rates		1,778	1,698	1,707
Fees and user charges		661	629	1,261
Grants and subsidies		243	238	497
Development and financial contributions		98	91	182
Other revenue		233	137	287
Vested assets		239	186	572
Finance revenue		9	24	37
Total revenue excluding other gains	A1	**3,261**	**3,003**	**4,543**
Expenditure				
Employee benefits		442	433	866
Depreciation and amortisation		454	423	865
Grants, contributions and sponsorship		103	103	133
Other operating expenses		810	759	1,548
Finance costs		238	232	472
Total expenditure excluding other losses		**2,047**	**1,950**	**3,884**
Operating surplus before gains and losses		**1,214**	**1,053**	**659**
Net other losses	A2	(176)	(104)	(112)
Share of surplus in associates and joint ventures		21	42	147
Surplus before income tax		**1,059**	**991**	**694**
Income tax expense		20	15	34
Surplus after income tax		**1,039**	**976**	**660**
Other comprehensive revenue/(expenditure)				
Net gain on revaluation of property, plant and equipment		-	-	2,362
Tax on revaluation of property, plant and equipment		-	-	(276)
Movement in cash flow hedge reserve		(3)	6	5
Tax on movement in cash flow hedges		1	(2)	-
Share of associates and joint ventures reserves		(3)	1	264
Net unrealised gain on revaluation of financial assets classified as available-for-sale		-	8	7
Total other comprehensive revenue		**(5)**	**13**	**2,362**
Total comprehensive revenue		**1,034**	**989**	**3,022**

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

Tauāki mō te tūāhua tahua pūtea

Statement of financial position

As at 31 December 2018

$million	Note	Unaudited as at 31 Dec 2018	Unaudited as at 31 Dec 2017	Audited as at 30 Jun 2018
Assets				
Current assets				
Cash and cash equivalents		280	774	618
Receivables and prepayments		1,177	1,125	379
Derivative financial instruments	B4	3	7	7
Other financial assets		61	458	151
Inventories		48	41	41
Non-current assets held-for-sale		13	133	35
Total current assets		**1,582**	**2,538**	**1,231**
Non-current assets				
Receivables and prepayments		9	9	10
Derivative financial instruments	B4	274	272	282
Other financial assets		121	141	121
Property, plant and equipment	B1	47,247	43,554	46,730
Intangible assets		613	526	563
Investment property		776	743	761
Investment in associates and joint ventures		1,767	1,369	1,751
Other non-current assets		11	11	13
Total non-current assets		**50,818**	**46,625**	**50,231**
Total assets		**52,400**	**49,163**	**51,462**
Liabilities				
Current liabilities				
Bank overdraft		1	3	8
Payables and accruals		631	653	688
Employee entitlements		82	98	100
Borrowings	B3	1,078	1,047	905
Derivative financial instruments	B4	4	6	5
Income tax payable		-	1	-
Provisions	B2	145	108	127
Total current liabilities		**1,941**	**1,916**	**1,833**
Non-current liabilities				
Payables and accruals		100	61	104
Employee entitlements		5	5	5
Borrowings	B3	7,486	7,970	7,927
Derivative financial instruments	B4	1,190	927	963
Provisions	B2	399	390	405
Deferred tax liabilities		1,443	1,129	1,423
Total non-current liabilities		**10,623**	**10,482**	**10,827**
Total liabilities		**12,564**	**12,398**	**12,660**
Net assets		**39,836**	**36,765**	**38,802**
Equity				
Contributed equity		26,732	26,728	26,732
Accumulated funds		2,600	1,920	1,667
Reserves		10,504	8,117	10,403
Total equity		**39,836**	**36,765**	**38,802**

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

Tauāki mō ngā panonitanga o ngā hua uara

Statement of changes in equity

For the six months ended 31 December 2018

1 July 2018 to 31 December 2018 **Unaudited** **$million**	**Contributed equity**	**Accumulated funds**	**Reserves**	**Total equity**
Balance as at 1 July 2018	**26,732**	**1,667**	**10,403**	**38,802**
Surplus after income tax	-	1,039	-	**1,039**
Other comprehensive revenue	-	-	(5)	**(5)**
Total comprehensive revenue	**-**	**1,039**	**(5)**	**1,034**
Transfers to/(from) reserves	-	(106)	106	-
Balance as at 31 December 2018	**26,732**	**2,600**	**10,504**	**39,836**

1 July 2017 to 31 December 2017 **Unaudited** **$million**				
Balance as at 1 July 2017	**26,728**	**951**	**8,097**	**35,776**
Surplus after income tax	-	976	-	976
Other comprehensive revenue	-	-	13	13
Total comprehensive revenue	**-**	**976**	**13**	**989**
Transfers to/(from) reserves	-	(7)	7	**-**
Balance as at 31 December 2017	**26,728**	**1,920**	**8,117**	**36,765**

1 July 2017 to 30 June 2018 **Audited** **$million**				
Balance as at 1 July 2017	**26,728**	**951**	**8,097**	**35,776**
Surplus after income tax	-	660	-	660
Other comprehensive revenue	-	-	2,362	2,362
Total comprehensive revenue	**-**	**660**	**2,362**	**3,022**
Found assets	4	**-**	**-**	**4**
Transfers to/(from) reserves	-	56	(56)	**-**
Balance as at 30 June 2018	**26,732**	**1,667**	**10,403**	**38,802**

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

Tauāki mō ngā moni utu, whiwhinga rānei

Statement of cash flows

For the six months ended 31 December 2018

$million	Note	Unaudited 6 months to 31 Dec 2018	Unaudited 6 months to 31 Dec 2017	Audited 12 months to 30 Jun 2018
Cash flows from operating activities				
Receipts from customers, rates, grants and other services		2,223	1,961	3,972
Interest received		8	22	37
Dividends received		32	32	68
Payments to suppliers and employees		(1,318)	(1,149)	(2,523)
Income tax refund		-	2	4
Interest paid		(238)	(230)	(457)
Net cash inflow from operating activities	C3	**707**	**638**	**1,101**
Cash flows from investing activities				
Sale of property, plant and equipment, investment property and intangible assets		43	65	257
Purchase of property, plant and equipment, investment property and intangible assets		(917)	(860)	(1,665)
Acquisition of other financial assets		(23)	(433)	(132)
Proceeds from sale of other financial assets		126	257	284
Receipts from the Crown		-	218	218
Investment in joint ventures		(30)	(44)	(93)
Advances to external parties		(2)	(1)	(3)
Net cash outflow from investing activities		**(803)**	**(798)**	**(1,134)**
Cash flows from financing activities				
Proceeds from borrowings		820	2,484	3,947
Repayment of borrowings		(1,021)	(1,911)	(3,640)
Proceeds from derivative financial instruments		6	42	48
Payment for derivative financial instruments		(40)	(15)	(43)
Net cash inflow from financing activities		**(235)**	**600**	**312**
Net increase in cash and cash equivalents and bank overdraft		**(331)**	**440**	**279**
Opening cash and cash equivalents and bank overdraft		610	331	331
Closing cash and cash equivalents and bank overdraft		**279**	**771**	**610**

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

Basis of reporting

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, subsidiaries, associates and joint arrangements. All entities are domiciled in New Zealand.

Significant council-controlled organisations and subsidiaries comprise of:

- Auckland Tourism, Events and Economic Development Limited
- Auckland Transport
- Panuku Development Auckland Limited
- Regional Facilities Auckland
- Watercare Services Limited
- Ports of Auckland 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, the 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 2018 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 2018. 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 2018 are unaudited however they have been subject to a review by the Auditor-General, pursuant to the NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*.

Basis of preparation

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.

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 2018 except as described below.

Early adoption of PBE IFRS 9 *Financial instruments*

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

- Classification and measurement of financial instruments
- A single, forward looking, 'expected credit loss' impairment model; and
- Substantially reformed approach to hedge accounting

Classification and measurement of financial instruments

The Group classifies its financial instruments in the following categories:

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

Basis of reporting

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

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

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

Financial assets	**Original classification under PBE IPSAS 29**	**New classification under PBE IFRS 9**
Cash and cash equivalents	Amortised cost	Amortised cost
Trade receivables	Amortised cost	Amortised cost
Related party receivables	Amortised cost	Amortised cost
Accrued income	Amortised cost	Amortised cost
Other receivables	Amortised cost	Amortised cost
Loans to related parties	Amortised cost	Amortised cost
Community loans	Amortised cost	Amortised cost
Retrofit YourHome receivables	Amortised cost	Amortised cost
Borrower notes	Amortised cost	FVTSD
Short term deposits	Amortised cost	Amortised cost
Investment in unlisted shares	FVTOCRE	FVTSD
Investment in listed equity shares	FVTOCRE	FVTOCRE
Bonds	Amortised cost	Amortised cost
Minor Council Controlled Organisation's Bonds	FVTOCRE	FVTSD
Derivative assets	FVTSD	FVTSD

The requirements of PBE IPSAS 29 for classification and measurement of financial liabilities were carried forward in PBE IFRS 9, so the Group's accounting policy with respect to financial liabilities is unchanged. There was no material impact arising as a result of remeasurement of financial assets that have been classified differently under PBE IFRS 9.

New impairment model

PBE IFRS 9 prescribes an 'expected credit loss' model instead of a previous incurred loss model, so it is no longer necessary for a trigger event to have occurred before recognising credit losses. NZ IFRS 9 requires the Group to base the measurement of expected credit losses on forward-looking information, as well as current and historic information. There was no material expected credit loss allowance recognised as a result of adoption, as the Group has not experienced a history of significant credit losses, and no current or forward-looking information at 31 December 2018 indicated a significant increase in credit risk.

Hedge accounting

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

Significant accounting policies

Accounting policies that are considered critical to the portrayal of the Group's financial condition and results, and contain judgements, estimates and assumptions about matters that are inherently uncertain have been included in the notes to the financial statements. These accounting policies are consistent with those used at 30 June 2018, and include judgements around the useful lives and fair values of property, plant and equipment, and the fair values of financial instruments and provisions.

Section A: Financial performance

A1 Revenue

Sources of revenue are consistent with prior periods with the exception of two new sources of revenue outlined below:

Water quality and natural environment targeted rates
Water quality and natural environment targeted rates which fund operational and capital expenditure were implemented in the current financial period following the adoption of Long Term Plan 2018-2028. Targeted rates revenue is recognised in full at point of issuance of the rating notice and measured at the amount assessed, which is the fair value of cash received or receivable. Targeted rates can only be spent for the purpose for which they were levied and any unspent amounts at the end of a reporting period are transferred and accounted for through restricted targeted rate reserves.

These new targeted rates contributed $68 million to Rates revenue.

Regional fuel tax
Pursuant to the enactment of the Land Transport Management (Regional Fuel Tax) Amendment Regulations (No 2) 2018, the Auckland regional fuel tax scheme (RFT) came into effect from 1 July 2018, at a rate of 10 cents per litre (plus GST) on petrol and diesel and their bio-variants. The RFT replaced the Interim Transport Levy which was a targeted rate until 30 June 2018.

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

The RFT contributed $78 million to other revenue.

A2 Net other gains and losses

$million	Unaudited 6 months to 31 Dec 2018	Unaudited 6 months to 31 Dec 2017	Audited 12 months to 30 Jun 2018
Net gains/(losses) from financial instruments and derivatives	(167)	(96)	(202)
Net gains/(losses) on other	(9)	(8)	90
Total net other gains and losses	**(176)**	**(104)**	**(112)**

Section B: Financial position

B1 Property, plant and equipment

Accounting policy

The property, plant and equipment of the Group is 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, furniture and fittings; and,
- **Restricted assets** include property and improvements where the use or transfer of title outside of the Group is legally restricted.

Initial recognition and subsequent measurement

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

Useful lives

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

Asset class	Estimated useful life (years)	Asset class	Estimated useful life (years)
Infrastructure		**Operational (continued)**	
Land and road formation	Indefinite	Marina structures	16-100
Roads	8-100	Rolling stock	3-35
Water and wastewater	3-200	Wharves	4-100
Machinery	3-200	Works of art	Indefinite
Storm water	10-200	Other operational assets	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	6-60	Specified and cultural heritage assets	Indefinite
Bus stations and shelters	10-40		

Disposals

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

Revaluation

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

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

Section B: Financial position

B1 Property, plant and equipment (continued)

$million	Unaudited 6 months to 31 Dec 2018	Unaudited 6 months to 31 Dec 2017	Audited 12 months to 30 Jun 2018
Additions	947	881	2,067
Net disposals and transfers to non-current assets held-for-sale	(25)	(298)	(291)
Capital commitments	1,419	891	859
Share of capital commitments from joint ventures	92	135	128

Included in capital commitments is $203 million in relation to America's Cup 36, of which $136 million will be reimbursed by the Crown when project milestones are met.

There have been no material changes in fair value for property, plant and equipment between 30 June 2018 and 31 December 2018.

B2 Provisions

Accounting policy

Provisions are recognised in the statement of financial position only where the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be estimated reliably.
Provisions are measured at the present value of the expected future cash outflows required to settle the obligation. The increase in the provision due to the passage of time is recognised as finance cost in surplus or deficit.

Provision for remediation of weathertightness claims
The provision for remediation of weathertightness claims has increased from $319 million at 30 June 2018 to $350 million at 31 December 2018. The increase comprises of $63 million revised cost estimates to remediate multi-unit buildings, which have escalated due to more certainty around the costs of remediation, and the inability to share costs with other parties to the claim following their liquidation. This is partly offset by $35 million of claims settled in the period to 31 December 2018.

The Eden Park Trust guarantee
The $40 million provision against the guarantee provided to The Eden Park Trust (EPT) has remained unchanged since 30 June 2018. The EPT lender, ASB Bank Limited, has not renewed the EPT $40 million loan facility which expires on 30 September 2019 because the council did not extend its guarantee. The EPT is in ongoing discussions with various parties to resolve its financing prior to expiration of the current facility.

There have been no other material changes in provisions between 30 June 2018 and 31 December 2018.

B3 Borrowings

Accounting policy

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

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

Section B: Financial position

B3 Borrowings (continued)

$million	Unaudited As at 31 Dec 2018	Unaudited As at 31 Dec 2017	Audited As at 30 Jun 2018
Borrowings	8,564	9,017	8,832
Add bank overdraft	1	3	8
Less cash and cash equivalents	(280)	(774)	(618)
Total borrowings and bank overdraft less cash and cash equivalents	**8,285**	**8,246**	**8,222**

There were no defaults or breaches on any borrowing arrangement during the period (31 December 2017: nil; 30 June 2018: nil).

There has been no material change in the debt maturity profile between 30 June 2018 and 31 December 2018.

B4 Derivative financial instruments

Accounting policy

The Group does not hold or issue derivative financial instruments for trading purposes. The Group uses 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 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 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 non-financial asset or liability

B4 Derivative financial instruments (continued)

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

	Unaudited As at 31 Dec 2018		Unaudited As at 31 Dec 2017		Audited As at 30 Jun 2018	
Fair value ($million)	**Asset**	**Liabilities**	**Asset**	**Liabilities**	**Asset**	**Liabilities**
Interest rate swaps						
Cash flow hedge*	-	8	-	8	-	8
Fair value through surplus or deficit	37	1,081	44	851	39	896
Forward foreign currency contracts						
Cash flow hedge	1	-	4	1	4	-
Fair value through surplus or deficit	-	6	-	4	1	2
Cross-currency interest rate swaps						
Fair value through surplus or deficit	235	96	223	65	242	56
Basis swaps						
Fair value through surplus or deficit	4	3	8	1	3	3
Forward rate agreements						
Fair value through surplus or deficit	-	-	-	-	-	-
Interest rate options						
Fair value through surplus or deficit	-	-	-	3	-	3
Total derivative financial instruments	**277**	**1,194**	**279**	**933**	**289**	**968**

	Unaudited As at 31 Dec 2018		Unaudited As at 31 Dec 2017		Audited As at 30 Jun 2018	
Notional ($million)	**Asset**	**Liabilities**	**Asset**	**Liabilities**	**Asset**	**Liabilities**
Interest rate swaps	1,525	9,664	2,140	9,049	2,375	9,019
Forward foreign currency contracts	19	144	59	162	62	128
Cross-currency interest rate swaps	2,598	1,102	1,992	1,708	2,708	992
Basis swaps	1,216	840	1,216	840	1,216	840
Forward rate agreements	-	100	749	-	-	-
Interest rate options	-	-	-	50	-	50
Total derivative financial instruments	**5,358**	**11,850**	**6,156**	**11,809**	**6,361**	**11,029**

Section C: Other disclosures

C1 Investment in other entities

There have been no material changes in the Group's investments in other entities which include subsidiaries, associates and joint arrangements, listed in Note F3 of the annual report 2017/2018 (volume 3), during the six months to 31 December 2018 except as disclosed below:

- On 1 July 2018, Watercare novated its derivative financial instruments to the council for nil consideration. The derivatives were in a loss position of $217 million, which was recognised as an increase in the council's investment in Watercare. This transaction had no impact on the Group's financial position or performance.
- On 2 July 2018, Auckland Council Investment Limited (ACIL) transferred its shares in Ports of Auckland Limited and Auckland International Airport Limited to the council in advance of its disestablishment. This transaction had no impact on the Group's financial position or performance.
- On 2 October 2018, ACIL was disestablished and was removed from the Companies Register.
- The council provided $30 million of funding to City Rail Link Limited during the six months ended 31 December 2018.

C2 Contingencies

The council is a shareholder and guarantor of the Local Government Funding Agency (LGFA). The Group's cross-guarantee on LGFA's other borrowings was $7.2 billion at 31 December 2018 (30 June 2018: $6.2 billion). The Group considers the risk of the LGFA defaulting on repayment of interest or capital to be very low.

There have been no other material changes in contingencies between 30 June 2018 and 31 December 2018.

C3 Reconciliation of surplus after income tax to net cash inflow from operating activities

$million	Unaudited 6 months to 31 Dec 2018	Unaudited 6 months to 31 Dec 2017	Audited 12 months to 30 Jun 2018
Surplus after income tax	**1,039**	**976**	**660**
Add/(less) non-cash items:			
Depreciation and amortisation	454	423	865
Vested assets	(239)	(186)	(572)
Other non-cash revenue	189	101	71
Less items classified as investing or financing activities	**-**	**-**	**(9)**
Add/(less) movements in working capital items	**(736)**	**(676)**	**86**
Net cash inflow from operating activities	**707**	**638**	**1,101**

C4 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 2018

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 2018.

I have reviewed the interim financial statements of the Auckland Council Group on pages 9 to 20 that comprise the statement of financial position as at 31 December 2018, 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 2018; and
    - the results of its operations and cash flows for the six months ended on that date.

My review was completed on 28 February 2019. This is the date at which my conclusion is expressed.

The Council's responsibilities

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 2018 and the results of its 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, whether due to fraud or error.

My responsibilities as reviewer

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 of the Auditor-General that are relevant to the audit of financial statements.

Independent reviewer's report

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 and Auckland Council Group's personnel responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit, and thus a review 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 engagements:

- 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 2018;
- an assurance engagement in respect of information provided by the Auckland Council and Auckland Council Group as required by the terms of its foreign borrowings programme;
- limited assurance engagements in respect to the Auckland Council's Debenture Trust Deed and Master Trust Deed reporting certificates;
- an audit of the consultation document for an amendment of the 2018-2028 Long-Term Plan;
- a review of service performance audit, as required by s104 of the Auckland Council legislation, on the effectiveness of Council's post implementation review process; and
- other engagements for Watercare Services Limited in the areas of taxation services, probity, cyber and security risk advisory services, and forensic services, which are compatible with those independence requirements.

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

NZX and other exchange listing requirements

Summary of waivers granted by NZX

For the purposes of NZX Listing Rule 10.4.5(f), Auckland Council (**Council**) discloses that, in the 6 month period preceding 31 December 2018, NZX has granted and published and Council has relied on a waiver from Listing Rule 5.2.3 dated 9 May 2018 in respect of its issue of $200 million of fixed rate bonds (**AKC110 Bonds**).

Listing Rule 5.2.3

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

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

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

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

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

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

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 2018). Differences that impact only on presentation and disclosure have not been identified.

PBE Accounting Standards with comparable IFRS equivalent

Formation of Auckland Council Group

PBE
PBE IFRS 3 *Business Combinations* contains a scope exemption for business combinations arising from local authority reorganisations. This scope exemption is carried forward from NZ IFRS 3 (PBE) *Business Combinations*, the standard that was applicable to the Group at the time it was formed on 1 November 2010 as a result of the amalgamation of eight predecessor Auckland local authorities. Under the exemption, all assets and liabilities of the predecessor local authorities were recognised by the Group using the predecessor values of those assets and liabilities. The initial value at which those assets and liabilities were recognised by the Group is deemed to be their cost for accounting purposes.

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

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

Property, plant and equipment

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

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

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

Main differences between IFRS and PBE Accounting Standards

PBE Accounting Standards with comparable IFRS equivalent (continued)

Borrowing costs

PBE

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

IFRS

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

Impact

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

Impairment of Assets

PBE

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

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

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

IFRS

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

Impact

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

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

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

Revenue from non-exchange transactions

PBE

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

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

Main differences between IFRS and PBE Accounting Standards

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

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

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

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

Impact
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.

Revenue from exchange transactions

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

PBE IPSAS 9 Revenue from Exchange Transactions deals with revenue from exchange transactions. The Group's exchange revenue includes revenue from fees and user charges (water and wastewater charges, development contributions, infrastructure charges, port operations, consents, licences and permits) and revenue from sales of goods.

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

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

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

Impact
Compared to IFRS 15, the Group's accounting policy may lead to a change in the timing of recognition of revenue from exchange transactions.

For example, IFRS 15 contains more detailed guidance on identifying distinct performance obligations in a contract and allocating the consideration to these based on the stand alone selling price of the performance obligations. This may result in some revenue recognised earlier or later than under PBE IPSAS 9.

Main differences between IFRS and PBE Accounting Standards

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

Further, IFRS 15 contains more detailed guidance on the accounting treatment of variable consideration which may result in change in timing of recognising revenue related to items such as rebates and price concessions.

The impact of these differences may result in revenue recognised earlier/later in the contract period however it should not impact on the total revenue recognised during the contract term.

Service Concession Arrangement (also known as Public Private Partnership Arrangements)

PBE
PBE IPSAS 32 Service Concession Arrangements deals with the accounting for service concession arrangements from the grantor's perspective. Service concession arrangements are more commonly known as Public Private Partnership (PPP) arrangements. Broadly, service concession arrangements are arrangements between the public and private sectors whereby public services are provided by the private sector using public infrastructure (service concession asset).

PBE IPSAS 32 requires the grantor (public entity) to recognise the service concession asset and a corresponding liability on its statement of financial position. The liability can be a financial or other liability or a combination of the two depending on the nature of the compensation of the operator.

A financial liability is recognised if the grantor compensates the operator by the delivery of cash or another financial asset. A non-financial liability is recognised if a right is granted to the operator to charge the users of the public service related to the service concession asset (liability for unearned revenue).

IFRS
IFRS contains no specific guidance addressing the accounting by the grantor (public entity) in a service concession arrangement. However, IFRS contains guidance for the operator's accounting (private entity).

Impact
Applying IFRS to service concession arrangements would not result in a significant impact on the Group's financial position or financial performance as, in absence of specific guidance in NZ IFRS, prior to the adoption of PBE Accounting Standards, NZ practice has been to 'mirror' the accounting treatment of the private entity under IFRS which is consistent with the requirements of the PBE Accounting Standards.

Consolidated Financial Statements

PBE
PBE IPSAS 6 Consolidated and Separate Financial Statements includes guidance on assessing control to determine whether an entity should be included within the consolidated financial statements of the parent company. It also specifies the accounting treatment for interests in other entities in the separate parent financial statements.

IFRS
IFRS 10 Consolidated Financial Statements contains guidance on assessing control using principles similar to those in PBE IPSAS 6 and provides additional guidance to assist in the determination of control where this is difficult to assess. IAS 27 Separate Financial Statements specifies the accounting treatment for interests in other entities in the separate parent financial statements.

Impact
The Group does not believe that the application of IFRS 10 would result in more or fewer entities being consolidated than under PBE IPSAS 6.

Joint Arrangements

PBE
PBE IPSAS 8 Joint Ventures defines three types of joint ventures: jointly controlled assets, jointly controlled operations and joint ventures.

IFRS
IFRS 11 Joint Arrangements focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures.

Impact
The Group does not believe that the application of IFRS 11 would result in a material change to the Group's results and net assets.

Main differences between IFRS and PBE Accounting Standards

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

Fair Value Measurement

PBE
There is no specific standard in the PBE Accounting Standards, however a number of PBE Accounting Standards contain guidance on the measurement of fair value in specific context (for example PBE IPSAS 17 Property, Plant and Equipment and PBE IFRS 9 Financial Instruments).

IFRS
IFRS 13 Fair Value Measurement does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

Impact
The application of IFRS 13 may result in differences in the measurement of certain property, plant and equipment compared to PBE IPSAS 17 and financial assets and liabilities compared to PBE IFRS 9.

Employee Benefits

PBE
PBE IPSAS 25 Employee Benefits is based on IPSAS 25. IPSAS 25 is based on IAS 19 Employee Benefits (2004).

IFRS
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.

Impact
The Group has no material defined benefit obligations and therefore there is no impact on its financial performance and financial position.

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

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

Our customer service centres

Albany
30 Kell Drive, Albany

Birkenhead
Corner of Rawene Street and Hinemoa Street,
Birkenhead

Bledisloe Lane (CBD)
Bledisloe House, Ground Floor
24 Wellesley Street, Auckland CBD

Devonport
2 Victoria Road, Devonport

Glenfield
90 Bentley Avenue, Glenfield

Graham Street
Ground level, 35 Graham Street
Auckland CBD

Great Barrier Island
75 Hector Sanderson Road
Claris, Great Barrier Island

Helensville
49 Commercial Road, Helensville

Henderson
6 Henderson Valley Road
Henderson

Hibiscus and Bays
Corner of Bute Road and Glen Road
Browns Bay

Huapai
296 Main Road (SH16), Huapai

Manukau
Ground floor, Kotuku House,
4 Osterley Way, Manukau

Orewa
50 Centreway Road, Orewa

Papakura
35 Coles Crescent, Papakura

Pukekohe
82 Manukau Road, Pukekohe

Takapuna
1 The Strand, Takapuna

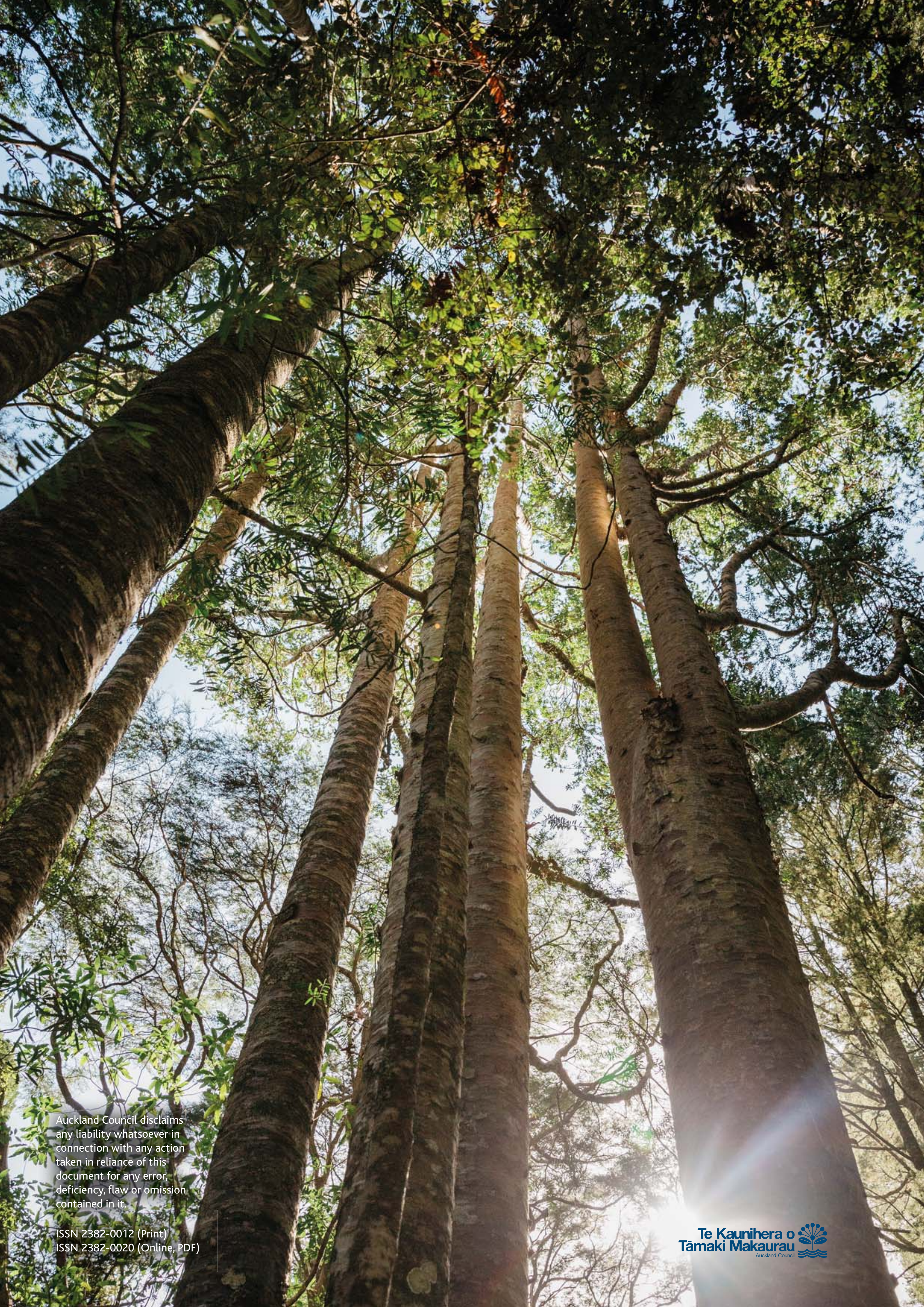
Waiheke Island
10 Belgium Street, Ostend, Waiheke Island

Warkworth
1 Baxter Street, Warkworth

Whangaparāoa
9 Main Street, Whangaparāoa

For opening hours and a list of services available at each service centre, visit www.aucklandcouncil.govt.nz

ON THE BACK COVER: Kauri Trees. Photographer: Alex Wallace / Photo New Zealand



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