Pūrongo Taupua a te Rōpū Kaunihera o Tāmaki Makaurau

31 O HAKIHEA 2019

Auckland Council Group Interim Report

31 December 2019

Auckland Council
Te Kaunihera o Tāmaki Makaurau

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.

Ngā Upoko Kōrero
Contents

He karere nā te koromātua
Message from the Mayor

Over the next decade, Auckland's population will grow to over two million people and the equivalent of two Hamiltons worth of new housing developments will be added to our city.

To cater for this growth and ensure Auckland can fulfil its role as New Zealand's only international and globally competitive city, the Auckland Council Group (the group) is investing at record levels, with $26.2 billion set out in our ten-year budget to address transport congestion, increase the supply and affordability of housing and protect and enhance our environment.

Our annual budget, confirmed last year, further strengthens our focus in these areas, committing new funding to provide free weekend and public holiday travel for children on public transport, ferry fare integration for HOP card users, and financial support for the City Mission's HomeGround Project, which will help tackle chronic homelessness.

MAYOR PHIL GOFF

The budgeted $2.7 billion of capital investment in the current financial year is accelerating the delivery of the infrastructure projects we need, including projects set for completion this year to accommodate the tens of thousands of domestic and international visitors expected in 2021, when Auckland hosts APEC, the America's Cup, Te Matatini and much more.

General rates rises have been kept fair and reasonable

The group is now focusing on delivering this unprecedented programme of capital investment, while ensuring that its operations remain efficient and effective and provide value for money to ratepayers.

General rates rises have been kept fair and reasonable at an average of 2.5 per cent, necessary to allow us to invest in new and upgraded infrastructure to keep our rapidly growing city moving and ensure we can deliver the services Aucklanders want and need.

$10 million in savings have been achieved in the six months to 31 December 2019 with an additional $13 million forecast to be realised over the remainder of the year.

The retention of the group's credit ratings with S&P Global Ratings and Moody's at AA and Aa2 respectively, both with a stable outlook, reflects the group's prudent fiscal management, balancing the need to increase investment and service delivery with our responsibility to ensure efficiency and value for money for ratepayers.

For New Zealand to succeed Auckland must succeed, and the work being undertaken by the group now is necessary for our region to be a truly world-class place to live, work and play.

Phil Goff

Hon Phil Goff
Mayor of Auckland
28 February 2020

He karere nā te tumu whakarae
Message from the Chief Executive

This interim financial report reflects the continued investment in the infrastructure required to support Auckland's growing and more diverse population.

Our investment in infrastructure has continued at unprecedented levels - $227 million in roads and footpaths, $118 million in public transport, $272 million in water and wastewater infrastructure and $130 million in City Rail Link Limited.

Our growing population doesn't only require great transport and water infrastructure, but also strong communities to support and encourage diversity, and protection of one of Auckland's most important assets, our natural environment. Improvements to the quality of our waterways, tackling the spread of Kauri Dieback, and work to make Auckland pest-free by 2050 are examples of projects funded from the Water Quality and Natural Environment targeted rates introduced in 2018/2019. In the community space we're delivering shared paths, upgrading parks and building multi-purpose community facilities that make Auckland a supportive and vibrant place to live.

STEPHEN TOWN

We're investing in a growing city and managing our finances responsibly

The council's declaration of Auckland's climate change emergency is a core consideration behind all our decisions. In this interim financial report we are making our first climate change risk disclosure. This disclosure is our first step towards being fully accountable for our climate change action, and in future we will continually improve this.

From a financial perspective, our key results are positive. They include:

- Operating surplus of $1,349 million, $135 million more than the same period last year
- Revenue of $3,494 million, $233 million more than the same period last year
- Total net group debt of $9,214 million, an increase of $547 million over the six-month period, against the back drop of total assets increasing over the period by $1,819 million to $54,692 million.

Our focus remains on achieving value for money to ratepayers, and we are on track to deliver on our promise of efficiency savings of $23 million by the end of the financial year.

Stephen Town
Chief Executive
28 February 2020

Hurihanga āhuarangi

CLIMATE CHANGE

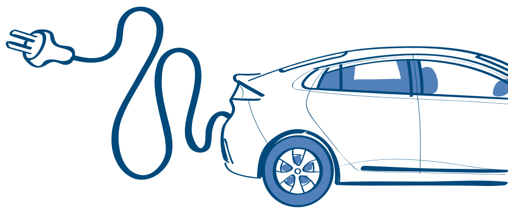
Hurihanga āhuarangi
Climate change

Climate change is one of the most significant issues we face today. Auckland has already felt some of the impacts from climate change such as rising sea levels, flooding, drought and heat waves. The Governing Body of the Auckland Council Group declared a climate emergency in June 2019, which committed the group to taking the necessary action to manage and mitigate our risks, whilst taking advantage of the opportunities created by climate change.

The group has a number of initiatives underway to address climate change risk.
Here are some examples:

- Resilience and emission expectations are being set through the group's procurement levers.
- We are developing emissions reduction plans that cover our assets, services and travel.
- Zero-waste initiatives are in motion to achieve our plan for Auckland to be zero-waste by 2040.

- We are developing Coastal Management Plans to prepare for the impacts of climate change.
- We have a 'Million Trees' programme and an Urban Ngahere (Forest) Strategy that are focussed on increasing tree coverage and carbon capture across the region.



- We provide e-bikes in our fleet system. We are addressing the emissions associated with our staff's work-related travel by improving our video and web-conference capabilities and increasing the numbers of electric vehicles and e-bikes in our fleet system.
- We are taking steps to make our largest wastewater treatment plants energy neutral by 2025, and generated over 25% of Watercare's electricity in 2018/2019 by collecting methane.
- We are supporting '**Live Lightly**' and development of '**Future Fit**', a carbon footprint tool.
- We are advocating to central government on its climate-related policy developments such as the Zero Carbon Bill and amendments to the emissions trading scheme and resource management regime.
- We piloted the installation of three solar stations connected to our pumping stations, reservoirs and water treatment plants.
- We have a programme to overhaul delivery of water infrastructure to reduce construction emissions by 40% over the next 4 years.

We are reducing emissions by running 3 electric buses with plans for more over the coming years.

We are encouraging a shift towards public transport and low emissions options by improving public transport services through roading, busway and rail upgrades. We are adding 15 electric trains which will enable longer trains and providing high quality cycleways across Auckland.

Tūponotanga e pā ana ki te hurihanga āhuarangi
Climate change risk

Auckland Council Group's response to climate change risk is outlined in this climate change risk disclosure, which has been prepared for the first time under the framework provided by the Task Force on Climate-related Financial Disclosures (TCFD). The disclosure will develop over time as the group's response to climate change evolves.

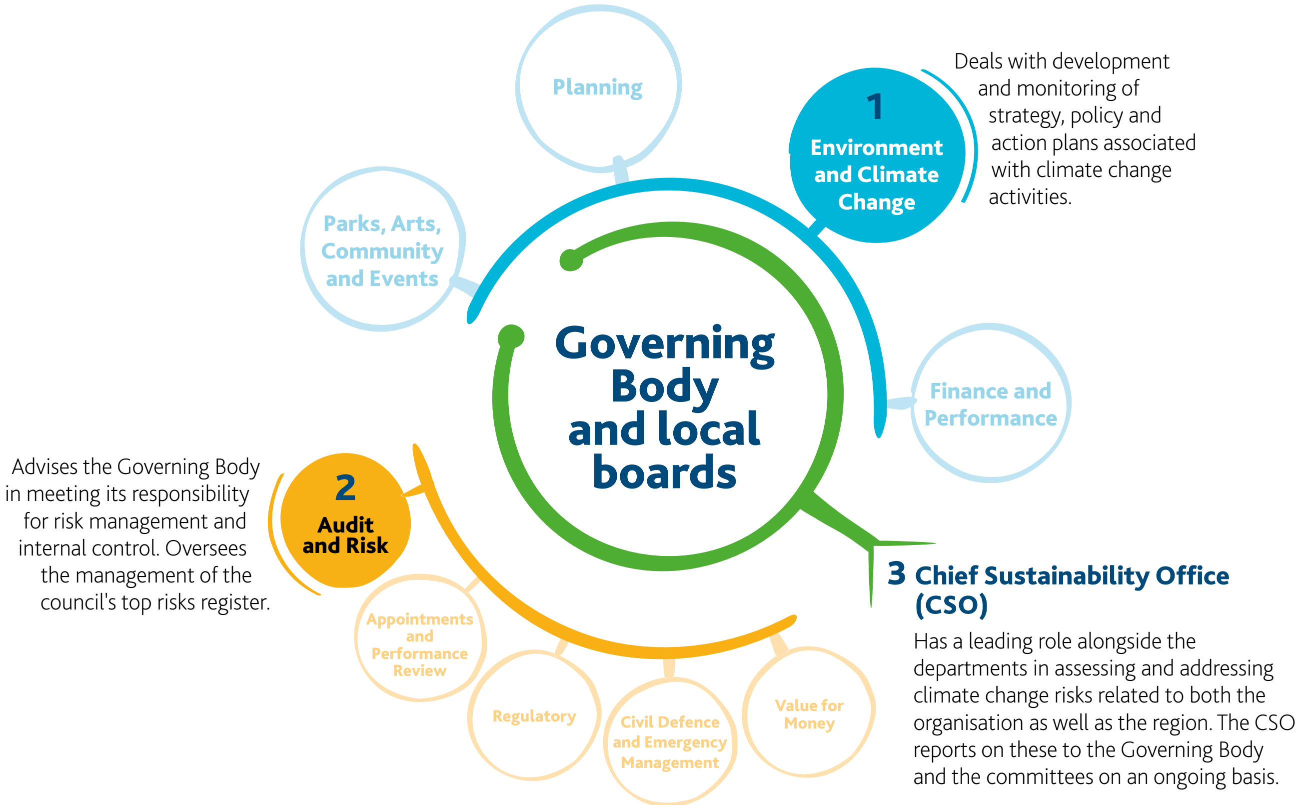
The largest subsidiaries in the group are Watercare Services Limited, Ports of Auckland Limited and Auckland Transport. Their boards have individually responded to climate change risk, and each entity is at different stages of risk assessment and strategy development. We outline examples of their responses separately.

Governance

The Auckland Council Group is governed by the elected Governing Body, local boards and the respective boards of each subsidiary. The Governing Body is made up of the mayor and twenty ward councillors with a focus on Auckland-wide strategic decisions. To enable efficient decision-making, the Governing Body delegates powers to various committees.
The governance of city-wide climate change related matters are the responsibility of two committees:

1. the Environment and Climate Change Committee; and
2. the Audit and Risk Committee.

Local boards set the strategic direction for each local board area and are responsible for local initiatives that address climate change.

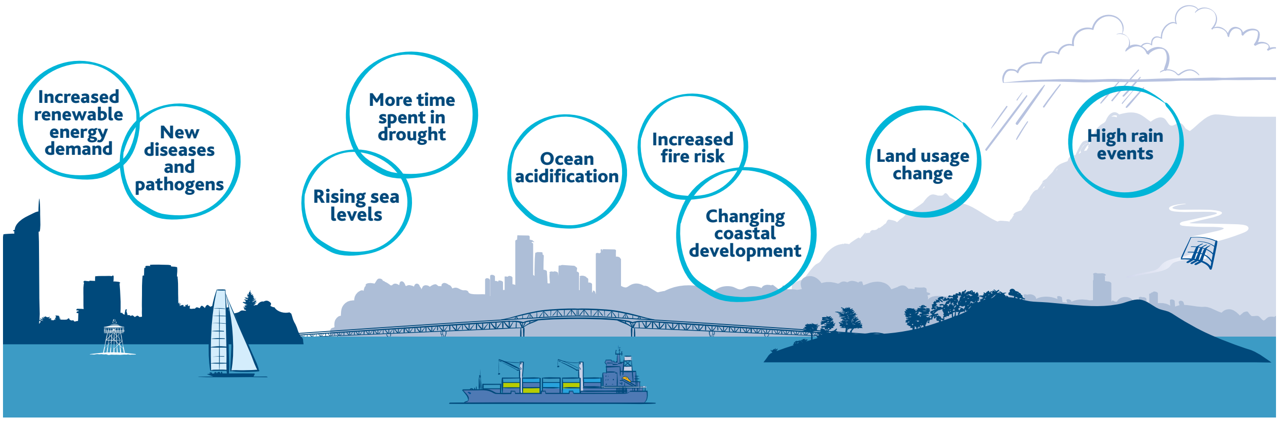


Watercare
An Auckland Council Organisation

The Watercare Board of Directors has oversight of climate change risk through the organisation's Enterprise Risk Register which includes the impacts of climate change. In 2020 a Board subcommittee, Committee for Climate Action, will be established to focus on the governance of climate change risk.

Strategy

The Auckland Region is exposed to a range of climate-related risks. These risks form the core of Auckland Council's climate-related risk exposure. Climate change is being manifested in the region as follows:



Auckland Council has analysed projected climate changes for the Auckland region and potential impacts of climate change on some of Auckland's environments and sectors.

Projected Climate changes for Auckland

- Higher temperatures expected
- Number of hot days to increase
- Changes to seasonal distribution of rainfall
- Drought and flooding more common
- Number of windy days to decrease, while intensity of tropical cyclones to increase.

Significant impacts

- Drier soils, changes to river flow (both low flows and floods), and increases in slips
- Ocean acidification, impacting ocean productivity and the development of marine species
- Establishment and proliferation of non-native marine species
- Sea-level rise impacting coastal communities, infrastructure and habitats
- Changes to air quality impacting the health of Aucklanders
- Indigenous biodiversity will be affected both directly by climate changes (e.g. drought and increased temperature) and indirectly by pests and habitat loss.

Risks

- Our natural and human made systems won't work as well as a result of changing climate conditions or damaging extreme events
- Direct impacts on biodiversity, cultural heritage, productivity or changes in market demands for goods and services
- Unequal distribution of impacts, with those such as the elderly, the very young, those living in poverty or with chronic health issues more likely to be negatively affected.

Opportunities

- Innovation to minimise cost impacts through the transition to a low carbon economy
- Significant cost avoidance from embedding long-term climate change considerations into planning decisions;
- Significant cost avoidance from reducing the need for major retrofitting or land-use changes as impacts become more frequent and severe
- Economic activity and employment through supporting new business opportunities that focus on providing services to Auckland that mitigate the effects of climate change.

As part of the next 10-year budget for 2021-2031, Auckland Council will consider a significant investment package as the council's contribution to climate action. The scope of this work includes actions that either directly or indirectly move us to a zero carbon, climate resilient future. In the meantime we need to continue to act. In 2020/2021 we plan to invest in foundational work for climate change action. This includes developing climate assessment tools and understanding the likely economic impacts of climate change.

Auckland Transport
An Auckland Council Organisation

Sustainability Strategy which addresses climate change has been drafted but has not yet been publicly released. The strategy is expected to have Board approval in 2020. Their transport design manual, a key strategy to ensure future infrastructure, is designed to reasonably withstand pressures created from climate change hazards. Asset management plans are also in place to ensure current infrastructure is maintained and upgraded appropriately over time.

Risk Management

We manage risk by identifying, communicating, monitoring and regulating

Auckland Council risks are identified through the council's top risk register. These are reviewed and reported quarterly to the Audit and Risk Committee.

The climate change adaptation and mitigation risk is assessed as inherently high and has a high residual risk rating.

A climate change risk review report provides assurance that climate change risk is being effectively managed, controls have been identified and the risk rating is appropriate. This also included a review of risks, strategies, plans, policies and commitments (Auckland's Climate Action Framework and the Climate Change Response (Zero Carbon) Amendment Bill (since adopted as the Zero Carbon Act)).

The climate change risk review identified Auckland's Climate Action Framework as a key control to delivering Auckland's integrated climate change actions. This is currently under development, the final framework will be reported to the Environment and Climate Change Committee for adoption after June 2020.

Numerous plans and strategies are in development or have been implemented to address climate change risks, which have been outlined in our climate change risk review. Some of the most significant plans are outlined below:

→ **SEE CLIMATE CHANGE RISK REVIEW REPORT**
https://infocouncil.aucklandcouncil.govt.nz/Open/2019/06/AUD_20190605_AGN_8416_AT.PDF

Department/Business Unit	Mitigation or Adaptation?	What are they doing about climate change – key controls?	Implemented or in development?
Chief Sustainability Office (part of the Chief Planning Office)	Mitigation & Adaptation	Auckland Climate Action Plan (ACAP)	In development
Chief Planning Office	Mitigation & Adaptation	Auckland Plan Unitary Plan Regional Policy Statements Infrastructure Strategy	✓ Implemented
Community Facilities	Mitigation & Adaptation	Waste minimisation and recycling Water efficiency plans	✓ Implemented
Auckland Emergency Management	Adaptation	Natural Hazards Risk Management Action Plan	In development
Infrastructure & Environmental Services	Adaptation	Water or stormwater Strategy (50-100-year outlook)	In development
		Resilient Communities, Catchments and Coastlines, RC3 project	In development
		Regional Pest Management Plan	✓ Implemented

PORTS OF AUCKLAND
TĀMAKI HERENGA WAKA

Climate-related strategic planning will be informed by the outputs of the risk and opportunities assessment work that is planned for the next 12 months. Scenario-based analysis will be undertaken in the next financial year, to better understand how resilient operations, assets and supply chains are to climate change under different likely scenarios.

Metrics and Targets

As a member of the New Zealand Climate Leaders Coalition and C40 Climate Leadership Group, Auckland Council has committed to do our part in keeping global temperature rise to well below 2 degrees and make best efforts towards remaining below 1.5 degrees.

Since 2012 Auckland Council has been compiling an inventory of greenhouse gas* (GHG) emissions associated with its business units' operations. The measurement of these GHG emissions has been independently assured by Toitū Envirocare since 2017, in accordance with *ISO 14064-1:2006 - Specification with Guidance at the Organisation Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals*.

Auckland Council's GHG emission sources have been classified into the following categories:

- **Scope 1 – includes direct emissions from sources owned or controlled by Auckland Council.**
- **Scope 2 – includes indirect emissions from the generation of purchased electricity, heat or steam consumed by Auckland Council.**
- **Scope 3 – includes indirect emissions that occur as a consequence of our activities, but from sources not owned or controlled by Auckland Council.**

Emissions associated with council buildings, such as our pools, libraries and service centres, make up the largest portion of the council's Scope 1 and 2 emissions. Emissions from the combustion of natural gas (Scope 1) used to heat and cool our buildings increased in 2018/2019** by 1% but the generation of electricity provided to Council buildings (Scope 2) has decreased by 26% from our base reporting year in 2016/2017.

Our second most significant source of Scope 1 emissions is agriculture and other land uses, largely associated with the 21 farms owned and operated by council. We have seen a 6% reduction in our agricultural emissions from 2017/2018 due mainly to an increase in sheep numbers and fewer cattle. Improved supplier reporting and increased scopes of work related to the maintenance of our public spaces, from 2017/2018 has resulted in a 3% increase of our Scope 3 transport and waste emissions.

Watercare
An Auckland Council Organisation

Watercare has three mitigation targets. A 40% reduction in infrastructure carbon by 2025, 45% reduction in operational emissions by 2030, and Net zero carbon emissions by 2050.

*Council-controlled organisations and Ports of Auckland are not included in this inventory but maintain separate inventories due to the distinct nature of their respective operations.

**Verification reporting periods

2016/2017 - 1 July 2016 - 30 June 2017.

2017/2018 - 1 July 2017 - 30 June 2018.

2018/2019 - 1 July 2018 - 30 June 2019.

Tirohanga mō te pāinga ā moni

FINANCIAL PERFORMANCE OVERVIEW

Tirohanga mō te pāinga ā moni
Financial performance overview

Auckland Council Group (the group) results reflect the group's continued commitment to managing its finances prudently while delivering community services and infrastructure to make Auckland a place where people want to work and live. The interim report is unaudited.

Our financial performance compared to the same period last year

Auckland Council Group generated an operating surplus before gains and losses of $1,349 million for the first six months to 31 December 2019, an increase of $135 million or 11% on the same period last year.

Revenue

The group's revenue was $233 million higher than the prior year. The most notable increases came from the following:

- Rates increased by $93 million, of which $73 million came from general rates due to the 2.5% general rate rise and a 1.7% growth in the rating base. The remaining $20 million was from targeted rates, of which $13 million was from the waste management targeted rate.
- Grants and subsidies increased by $98 million of which $79 million funded downtown construction for America's Cup 36, APEC and Te Matatini, as well as roading and public transport projects.
- Fees and user charges increased overall by $64 million, mainly due to the increase in building and resource consent fees of $20 million as a result of an increasing number of complex consents due to Auckland's increasing density. In addition, there was a significant increase in revenue from water and wastewater volume growth, water infrastructure growth charges and the continued growth in public transport patronage.

These increases were partly offset by lower development contribution revenue as the group implemented policy changes to support housing developers to increase the housing stock in Auckland. These policy changes allow developers to delay development contributions, resulting in $30 million less revenue in the current period.

Expenditure

The group remains committed to prudently managing its controllable costs to deliver value for ratepayers' money. Expenditure increased by $98 million compared to the prior year. The largest increases were in the following areas:

- Employee benefits increased by $51 million due to cost of living increases, additional staff recruited to fill vacancies particularly in more complex areas of regulatory control and engineering, and restructure costs due to an ongoing review to ensure that the organisation is future-fit.
- Other operating expenses, which are generally linked to the generation of additional revenue and the provision of enhanced levels of service, increased by $49 million. Some of the largest areas that have increased are public transport costs (due to new and revised lease contracts reflecting the increase in patronage), IT licence costs and the costs associated with streetscapes maintenance contracts which were amended to increase the frequency and quality of service. The group recorded additional amounts for a number of provisions during the reporting period, including the weathertightness claims expense of $21 million, a decrease of $41 million compared to the prior year. We also recognised a $7 million provision for remediation of issues relating to certain Retrofit Your Home loans, involving errors in the way that Retrofit Your Home loan payments were calculated along with certain other errors in the retrofit process.

The overall increase in expenditure was partly offset by a $21 million decrease in finance costs, which reflects the effect of declining market interest rates on our long-term debt.

Net other gains and losses

The overall losses within net gains and losses decreased by $135 million compared to the prior year.

The group actively manages its interest rate exposure to provide certainty over interest costs in the medium and long-term through derivatives. Derivatives are valued based on market interest rates and foreign exchange rates as at 31 December 2019. As a result of the movements in interest rates and foreign exchange rates between 30 June 2019 and 31 December 2019, the group recognised an unrealised loss of $57 million on offshore debt and its derivatives portfolio. This was $110 million less compared to the same period last year.

The group recorded a gain of $16 million on property sales between 30 June 2019 and 31 December 2019. This was $25 million higher than the same period last year.

Our financial position compared to 30 June 2019

The group increased its net asset position by $1,329 million from 30 June 2019. Most of the increase arose from increases in assets, mainly property, plant and equipment, receivables and prepayments, other financial assets and our investment in joint ventures and associates. The increase was partly offset by the increase in net debt. The most significant reasons for the increases are:

Property, plant and equipment

Property, plant and equipment increased by $844 million, which includes additions to infrastructure and community assets of $1,005 million and assets vested from developers of $231 million partly offset by disposals and depreciation.

Receivables and prepayments

Rates revenue is recognised in full when annual rates notices are issued at the beginning of the financial year. This resulted in an increase in rates receivables of $945 million for rates instalments not yet due.

Investment in associates and joint ventures

The increase in the group's investment in associates and joint ventures mainly relates to capital contributions of $130 million to City Rail Link Limited, to fund construction costs of the City Rail Link.

Net debt

Net debt, being borrowings and bank overdraft, net of cash and cash equivalents increased by $547 million. This increase was primarily made up of new long-term debt issuances comprising $150 million of green bonds issued in July 2019, and $877 million from EUR 500 million offshore bonds in September 2019, partly offset by the repayment of maturing debt.

Our cash flows compared to the same period last year

During the six-month period to 31 December 2019, the Group spent $1,282 million to build and renew infrastructure and community assets. The most significant areas of capital spend were as follows:

- $475 million was spent on roading and public transport infrastructure such as the City Rail Link, Rapid Transit Network, the renewal of roading assets and works in downtown Auckland to support America's Cup 36.
- $351 million was spent on water, wastewater and stormwater assets, including new infrastructure such as the central and northern wastewater interceptors and upgrades and expansions at the Pukekohe and Rosedale wastewater treatment plants.
- $372 million was spent on community assets including the development and renewal of local and regional community parks and facilities, downtown community assets, town centre regeneration, redevelopment of the zoo's South East Asia Jungle Track and refurbishment of the Aotea Centre.

This capital spend was funded by net operating cashflows of $746 million with the balance from borrowings.

Looking ahead

The group is on track to deliver a record $2.7 billion of capital investment by the end of the financial year. The infrastructure needs of the city and the pace we can deliver at will be a key discussion point with the community in our upcoming consultation on Long-term plan 2021-2031.

Capital investment in transport activity has proceeded rapidly as we deliver on the investments jointly agreed with central government through the Auckland Transport Alignment Project. However, capital subsidies for transport investment have been below budget as we continue to work with the central government on accessing the agreed funding levels.

While Auckland is experiencing strong development activity, due to the change in our development contributions policy we are expecting full year revenue from development contributions for 2019/2020 to be around $100 million lower than budget. The policy change has resulted in developers being able to delay development contributions. Future year variances should reduce as timing changes play out and any changes from regular policy reviews are implemented.

Overall, we expect our year-end debt to revenue ratio to be comfortably within our internal debt policy and broadly consistent with our 2019-2020 annual budget projection.

Tauāki ā-moni whiwhi, ā-whakapaunga pūtea

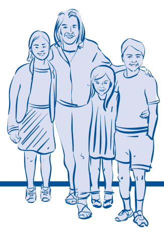
Statement of comprehensive revenue and expenditure

For the six months ended 31 December 2019

$MILLION	NOTE	UNAUDITED 6 MONTHS TO 31 DEC 2019	UNAUDITED 6 MONTHS TO 31 DEC 2018	AUDITED 12 MONTHS TO 30 JUN 2019
Revenue				
Rates	A1	1,871	1,778	1,790
Fees and user charges		725	661	1,333
Grants and subsidies		341	243	612
Development contributions		68	98	178
Other revenue		251	233	464
Vested assets		231	239	486
Finance revenue measured using effective interest method		7	9	15
Other finance revenue		-	-	1
Total revenue excluding other gains		**3,494**	**3,261**	**4,879**
Expenditure				
Employee benefits[1]		498	447	911
Depreciation and amortisation		464	454	922
Grants, contributions and sponsorship		112	103	144
Other operating expenses[1]		854	805	1,633
Finance costs		217	238	478
Total expenditure excluding other losses		**2,145**	**2,047**	**4,088**
Operating surplus before gains and losses		**1,349**	**1,214**	**791**
Net other losses	A2	(41)	(176)	(651)
Share of surplus in associates and joint ventures		25	21	93
Surplus before income tax		**1,333**	**1,059**	**233**
Income tax expense		17	20	58
Surplus after income tax		**1,316**	**1,039**	**175**
Other comprehensive revenue/(expenditure)				
Unrealised gain on revaluation of financial asset		14	-	-
Movement in cash flow hedge reserve		1	(3)	(4)
Net gain on revaluation of property, plant and equipment		-	-	41
Deferred tax written back to revaluation reserve on asset transfer		-	-	27
Tax on revaluation of property, plant and equipment		-	-	(11)
Tax on movement in cash flow hedges		-	1	-
Share of associates and joint ventures reserves		(2)	(3)	7
Total other comprehensive revenue		**13**	**(5)**	**60**
Total comprehensive revenue		**1,329**	**1,034**	**235**

[1] The comparative financial information for the six months to 31 December 2018 has been restated to reflect the effects of the reclassification of $4.8 million from Employee benefits to Other operating expenses described in the Basis of Reporting section.

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



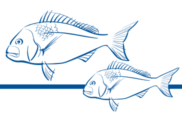
Tauāki mō te tūāhua tahua pūtea
Statement of financial position

As at 31 December 2019

$MILLION	NOTE	UNAUDITED AS AT 31 DEC 2019	UNAUDITED AS AT 31 DEC 2018	AUDITED AS AT 30 JUN 2019
Assets				
Current assets				
Cash and cash equivalents		173	280	294
Receivables and prepayments		1,425	1,177	475
Derivative financial instruments	B5	5	3	3
Other financial assets		175	61	56
Inventories		49	48	48
Non-current assets held-for-sale		2	13	59
Total current assets		**1,829**	**1,582**	**935**
Non-current assets				
Receivables and prepayments		56	9	41
Derivative financial instruments	B5	367	274	441
Other financial assets[1]	B2	145	126	131
Property, plant and equipment	B1	49,040	47,247	48,196
Intangible assets		665	613	640
Investment property		611	776	629
Investment in associates and joint ventures		1,968	1,767	1,850
Other non-current assets		11	11	10
Total non-current assets		**52,863**	**50,823**	**51,938**
Total assets		**54,692**	**52,405**	**52,873**
Liabilities				
Current liabilities				
Bank overdraft		9	1	3
Payables and accruals		876	631	869
Employee entitlements		95	82	106
Borrowings	B4	999	1,078	1,172
Derivative financial instruments	B5	12	4	9
Provisions	B3	151	145	171
Total current liabilities		**2,142**	**1,941**	**2,330**
Non-current liabilities				
Payables and accruals		116	100	106
Employee entitlements		5	5	5
Borrowings	B4	8,379	7,486	7,786
Derivative financial instruments	B5	1,923	1,190	1,839
Provisions	B3	272	399	299
Deferred tax liabilities		1,484	1,443	1,466
Total non-current liabilities		**12,179**	**10,623**	**11,501**
Total liabilities		**14,321**	**12,564**	**13,831**
Net assets		**40,371**	**39,841**	**39,042**
Equity				
Contributed equity		26,732	26,732	26,732
Accumulated funds[1]		3,052	2,605	1,788
Reserves		10,587	10,504	10,522
Total equity		**40,371**	**39,841**	**39,042**

[1] The Other financial assets and Accumulated funds balances for the comparative period as at 31 December 2018 were restated to increase them by $5 million for the impact on adoption of PBE IFRS 9 *Financial Instruments*.

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 2019

1 JULY 2019 TO 31 DECEMBER 2019

UNAUDITED $MILLION	CONTRIBUTED EQUITY	ACCUMULATED FUNDS	RESERVES	TOTAL EQUITY
Balance as at 1 July 2019	**26,732**	**1,788**	**10,522**	**39,042**
Surplus after income tax	-	1,316	-	1,316
Other comprehensive revenue	-	-	13	13
Total comprehensive revenue	**-**	**1,316**	**13**	**1,329**
Transfers to/(from) reserves	-	(52)	52	-
Balance as at 31 December 2019	**26,732**	**3,052**	**10,587**	**40,371**

1 JULY 2018 TO 31 DECEMBER 2018

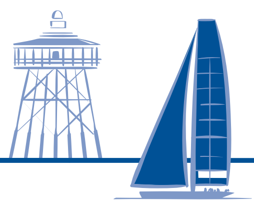
UNAUDITED $MILLION	CONTRIBUTED EQUITY	ACCUMULATED FUNDS	RESERVES	TOTAL EQUITY
Balance as at 1 July 2018	**26,732**	**1,667**	**10,403**	**38,802**
Adjustment on adoption of PBE IFRS 9	-	5	-	5
Adjusted balance as at 1 July 2018[1]	**26,732**	**1,672**	**10,403**	**38,807**
Surplus after income tax excluding PBE IFRS 9 adjustment above	-	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**	**2,605**	**10,504**	**39,841**

1 JULY 2018 TO 30 JUNE 2019

AUDITED $MILLION	CONTRIBUTED EQUITY	ACCUMULATED FUNDS	RESERVES	TOTAL EQUITY
Balance as at 1 July 2018	**26,732**	**1,667**	**10,403**	**38,802**
Adjustment on adoption of PBE IFRS 9	-	5	-	5
Adjusted balance as at 1 July 2018	**26,732**	**1,672**	**10,403**	**38,807**
Surplus after income tax excluding PBE IFRS 9 adjustment above	-	175	-	175
Other comprehensive revenue	-	-	60	60
Total comprehensive revenue	**-**	**175**	**60**	**235**
Transfers to/(from) reserves	-	(59)	59	-
Balance as at 30 June 2019	**26,732**	**1,788**	**10,522**	**39,042**

[1] The opening balance for the comparative period 1 July 2018 to 31 December 2018 was restated for the impact on adoption of PBE IFRS 9 *Financial Instruments.*

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



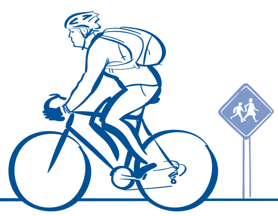
Tauāki mō ngā moni utu, whiwhinga rānei
Statement of cash flows

For the six months ended 31 December 2019

$MILLION	NOTE	UNAUDITED 6 MONTHS TO 31 DEC 2019	UNAUDITED 6 MONTHS TO 31 DEC 2018	AUDITED 12 MONTHS TO 30 JUN 2019
Cash flows from operating activities				
Receipts from customers, rates, grants and other services		2,465	2,223	4,328
Interest received		6	8	17
Dividends received		33	32	65
Payments to suppliers and employees		(1,541)	(1,318)	(2,682)
Income tax refund		-	-	(14)
Interest paid		(217)	(238)	(466)
Net cash inflow from operating activities	C3	**746**	**707**	**1,248**
Cash flows from investing activities				
Sale of property, plant and equipment, investment property and intangible assets		68	43	168
Purchase of property, plant and equipment, investment property and intangible assets		(1,152)	(917)	(1,899)
Acquisition of other financial assets		(117)	(23)	(18)
Proceeds from sale of other financial assets		21	126	132
Investment in joint ventures		(130)	(30)	(65)
Advances to external parties[1]		(60)	(2)	(31)
Net cash outflow from investing activities		**(1,370)**	**(803)**	**(1,713)**
Cash flows from financing activities				
Proceeds from borrowings[1]		2,234	820	2,462
Repayment of borrowings		(1,716)	(1,021)	(2,282)
Proceeds from derivative financial instruments		7	6	35
Payment for derivative financial instruments		(28)	(40)	(69)
Net cash inflow from financing activities		**497**	**(235)**	**146**
Net increase in cash and cash equivalents and bank overdraft		**(127)**	**(331)**	**(319)**
Opening cash and cash equivalents and bank overdraft		291	610	610
Closing cash and cash equivalents and bank overdraft		**164**	**279**	**291**

[1]The comparative financial information for the 12 months to 30 June 2019 has been restated to reflect the effects of the reclassification of $30 million from financing activities to investing activities to better reflect the nature of the transaction.

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



He pito kōrero mō ngā Tauākī Tahua Pūtea

NOTES TO THE FINANCIAL STATEMENTS

He pito kōrero mō ngā Tauākī Tahua Pūtea
Notes to the Financial Statements

Basis of reporting

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

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

The council is an FMC Reporting Entity under the Financial Markets Conduct Act 2013 (FMCA 2013).
The council's principal address is 135 Albert Street, Auckland Central, New Zealand.

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

Statement of compliance

These interim financial statements are for the six months ended 31 December 2019 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 2019. 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 2019 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.

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 2019 except as described below.

Implementation of new and amended accounting standards by the group

<u>PBE Standards on interests in other entities:</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PBE IPSAS 39 *Employee Benefits*

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

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

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

Comparatives

Apart from the matters disclosed below, there has been no change to balances and disclosures reported in the prior period.

Restatement of opening accumulated funds

Following the finalisation of PBE IFRS 9 *Financial Instruments* opening adjustments, a fair value adjustment of $5 million was applied to the opening balance of Other financial assets which resulted in an increase in opening Accumulated funds of the same amount for the comparative period as at 31 December 2018.

Restatement of Statement of comprehensive revenue and expenditure

$4.8 million of cost recoveries have been reclassified from Employee benefits to Other operating expenses to reflect the nature of these costs accordingly for the comparative period six months to 31 December 2018.

Restatement of Statement of cash flows

A $30 million loan to an external party has been reclassified from financing activities to investing activities to reflect the nature of the transaction for the comparative period 12 months to 30 June 2019.

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 these interim financial statements. These accounting policies are consistent with those used at 30 June 2019 with the exception of property, plant and equipment which now takes into account the amendments to PBE IPSAS 21 and PBE IPSAS 26. The accounting policies include judgements on the timing of recognition of rates revenue, the useful lives and fair values of property, plant and equipment, and the fair values of financial instruments and provisions.

He pito kōrero mō ngā Tauākī Tahua Pūtea
Notes to the Financial Statements

Section A: Financial performance

A1 Revenue

Rates revenue is recognised in full at the point of issuance of the ratings notice and measured at the amount assessed, which is the fair value of the cash received or receivable.

Sources of revenue are consistent with prior periods.

A2 Net other gains and losses

$MILLION	UNAUDITED 6 MONTHS TO 31 DEC 2019	UNAUDITED 6 MONTHS TO 31 DEC 2018	AUDITED 12 MONTHS TO 30 JUN 2019
Net gains/(losses) from financial instruments and derivatives	(57)	(167)	(663)
Net gains/(losses) on other	16	(9)	12
Total net other gains and losses	**(41)**	**(176)**	**(651)**

He pito kōrero mō ngā Tauākī Tahua Pūtea
Notes to the Financial Statements

Section B: Financial position

B1 Property, plant and equipment

Accounting policy

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

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

Initial recognition and subsequent measurement

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

Useful lives

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

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

Impairment

Property, plant and equipment that is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Assets are considered cash generating if their primary objective is to provide a commercial return. The value in use for cash-generating assets is the present value of expected future cash flows.
For non-cash generating assets, value in use is determined using an approach based on a depreciated replacement cost.

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 at each reporting period 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' 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.

$MILLION	UNAUDITED 6 MONTHS TO 31 DEC 2019	UNAUDITED 6 MONTHS TO 31 DEC 2018	AUDITED 12 MONTHS TO 30 JUN 2019
Additions	1,236	947	2,251
Net disposals and transfers to non-current assets held-for-sale	2	(25)	4
Capital commitments	2,353	1,419	2,450
Share of capital commitments from joint ventures (CRLL)	871	92	73

There have been no material changes in fair value for property, plant and equipment between 30 June 2019 and 31 December 2019.

City Rail Link Limited (CRLL) awarded Contract 3 in July 2019, a contract which will involve the design, supply, construction and installation management of the CRL project from just south of Wyndham Street to the North Auckland Line at Mt Eden, and two new underground stations at Aotea square and Karangahape Road. This resulted in the significant increase in the group's share of capital commitments from joint ventures.

B2 Other financial assets

The Eden Park Trust Loan

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

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

At initial recognition, the council recorded the fair value of the EPT loan as nil due to the inherent uncertainty surrounding EPT's financial position and its forecast financial performance. As the group had previously recognised a provision for the $40 million financial guarantee and a provision for doubtful debts against the $6.5 million community loan, the new loan arrangement had no significant impact on net assets during the six months to 31 December 2019. As at 31 December 2019 the outstanding balance on the revolving cash advance facility loan of $44 million had a carrying value of nil in the financial statements.

B3 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 a finance cost in surplus or deficit.

Financial guarantees

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

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

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

Apart from the change in the provision for financial guarantees related to Eden Park, there have been no material changes in provisions between 30 June 2019 and 31 December 2019.

B4 Borrowings

Accounting policy

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

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

$MILLION	UNAUDITED 6 MONTHS TO 31 DEC 2019	UNAUDITED 6 MONTHS TO 31 DEC 2018	AUDITED 12 MONTHS TO 30 JUN 2019
Borrowings	9,378	8,564	8,958
Add bank overdraft	9	1	3
Less cash and cash equivalents	(173)	(280)	(294)
Total borrowings and bank overdraft less cash and cash equivalents	**9,214**	**8,285**	**8,667**

Net borrowings increased by $547 million, largely from a Euro Bond and Green Bond issuance between 30 June 2019 and 31 December 2019. This was partially offset by debt maturities during this period.

There were no defaults or breaches on any borrowing arrangement during the period (31 December 2018: nil; 30 June 2019: nil).

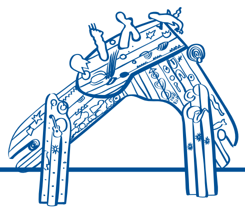
B5 Derivative financial instruments

Accounting policy

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

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

Derivative assets and derivative liabilities are classified as current when the 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.

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 2019		UNAUDITED AS AT 31 DEC 2018		AUDITED AS AT 30 JUN 2019	
FAIR VALUE ($MILLION)	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest rate swaps						
Cash flow hedge	-	8	-	8	-	10
Fair value through surplus or deficit	54	1,738	37	1,081	61	1,767
Forward foreign currency contracts						
Cash flow hedge	-	1	1	-	-	-
Fair value through surplus or deficit	-	9	-	6	-	8
Cross-currency interest rate swaps						
Fair value through surplus or deficit	309	179	235	96	373	63
Basis swaps						
Fair value through surplus or deficit	9	-	4	3	10	-
Total derivative financial instruments	**372**	**1,935**	**277**	**1,194**	**444**	**1,848**

	UNAUDITED AS AT 31 DEC 2019		UNAUDITED AS AT 31 DEC 2018		AUDITED AS AT 30 JUN 2019	
NOTIONAL ($MILLION)	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest rate swaps	1,345	9,989	1,525	9,664	1,555	9,649
Forward foreign currency contracts	2	115	19	144	2	133
Cross-currency interest rate swaps	2,130	2,446	2,598	1,102	2,971	729
Basis swaps	2,056	-	1,216	840	1,636	420
Forward rate agreements	-	-	-	100	-	-
Total derivative financial instruments	**5,533**	**12,550**	**5,358**	**11,850**	**6,164**	**10,931**

He pito kōrero mō ngā Tauākī Tahua Pūtea
Notes to the Financial Statements

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 2018/2019 (volume 3), during the six months to 31 December 2019 except the group provided $130 million of equity funding to City Rail Link Limited.

C2 Contingencies

Local Government Funding Agency

The group is a shareholder and guarantor of the Local Government Funding Agency (LGFA). The group's cross-guarantee on LGFA's other borrowings was $8.1 billion at 31 December 2019 (30 June 2019: $7.1 billion). The group considers the risk of the LGFA defaulting on repayment of interest or capital to be very low and accordingly the expected credit loss on this guarantee has been assessed as immaterial.

Accommodation provider targeted rate judicial review

At 30 June 2019 the group disclosed a contingent liability in relation to legal proceedings that challenged the council's decision to set the accommodation provider targeted rate, as well as resetting the rate in 2018 and extending it to the online accommodation sector. The maximum exposure was $26.2 million plus legal costs, and has increased to $40.2 million as at 31 December 2019.

There have been no other material changes in contingencies between 30 June 2019 and 31 December 2019.

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

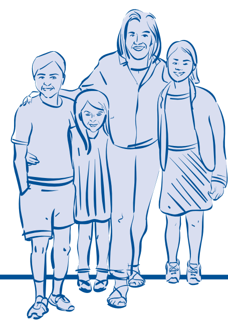
$MILLION	UNAUDITED 6 MONTHS TO 31 DEC 2019	UNAUDITED 6 MONTHS TO 31 DEC 2018	AUDITED 12 MONTHS TO 30 JUN 2019
Surplus after income tax	**1,316**	**1,039**	**175**
Add/(less) non-cash items:			
Depreciation and amortisation	464	454	922
Vested assets	(231)	(239)	(486)
Other non-cash revenue	48	189	641
Less items classified as investing or financing activities	**1**	**-**	**(2)**
Add/(less) movements in working capital items	**(852)**	**(736)**	**(2)**
Net cash inflow from operating activities	**746**	**707**	**1,248**

C4 Events after the reporting period

Accommodation provider targeted rate judicial review

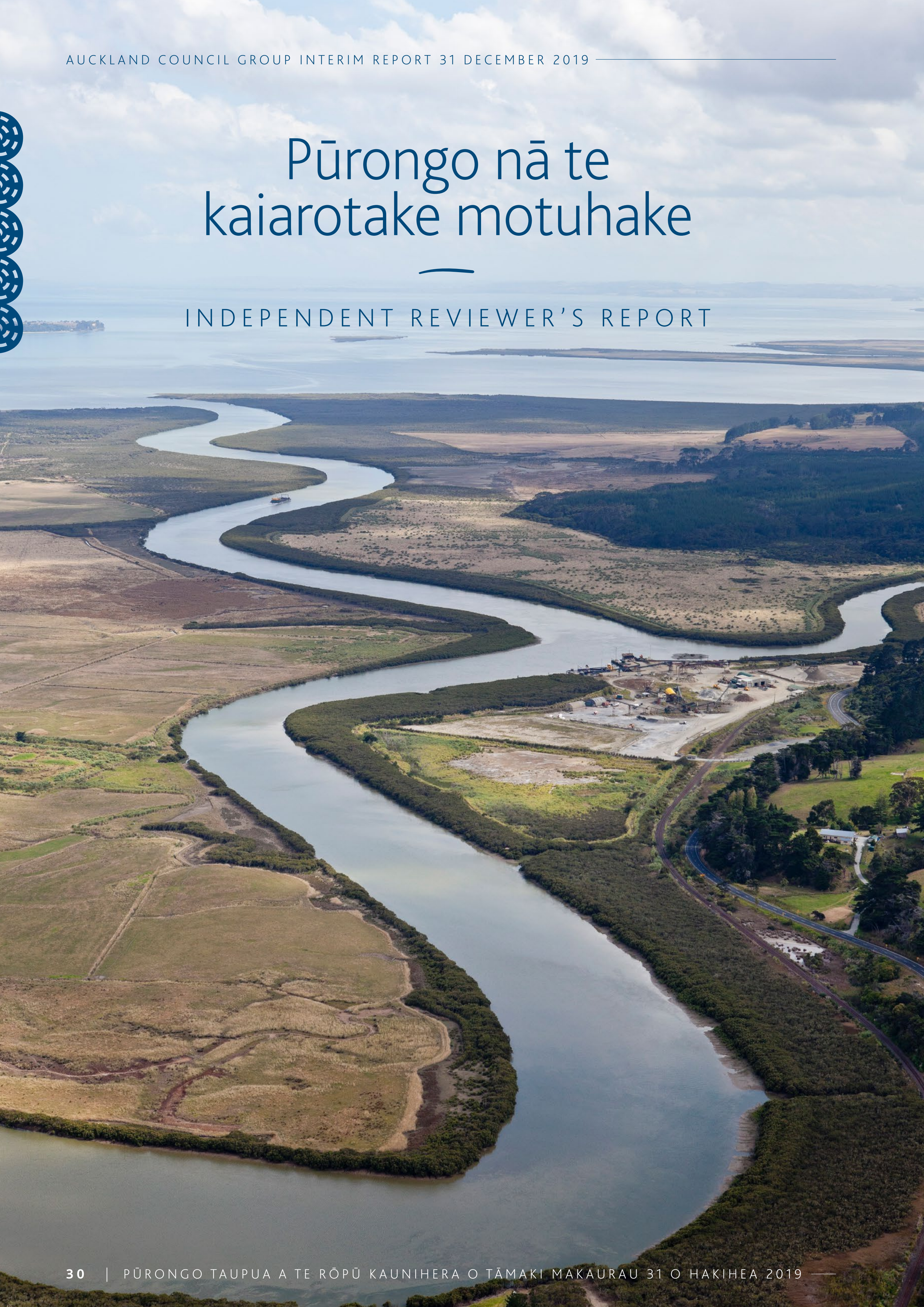
The application for the accommodation provider targeted rate judicial review mentioned in Note C2 was dismissed in February 2020. The applicants have until 5 March 2020 to file an appeal. As there is a possibility that the group may be exposed to a loss as a result of this legal action, the group considers that a contingent liability with a maximum value of $40.2 million exists.

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



Pūrongo nā te kaiarotake motuhake

INDEPENDENT REVIEWER'S REPORT



Independent Reviewer's Report

To the readers of Auckland Council Group's Interim Financial Statements for the six months ended 31 December 2019

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 2019.

I have reviewed the interim financial statements of the Auckland Council Group on pages 16 to 29 that comprise the statement of financial position as at 31 December 2019, 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 2019; and
    - the results of its operations and cash flows for the six months ended on that date.

My review was completed on 28 February 2020. 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 2019 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 and quality requirements of the Auditor-General that are 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 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 in the past year:

- 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 2019;
- 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;
- a limited assurance engagement in respect to the Auckland Council's Debenture Trust Deed and Master Trust Deed reporting certificates;
- a review of service performance audit, as required by s104 of the Auckland Council legislation, on the effectiveness of the Council's post implementation review process; and
- other engagements for Watercare Services Limited in the areas of taxation services, cyber and security risk advisory, probity services and limited assurance on selected non-financial information 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

Ngā rerekētanga matua o ngā Pae Tikanga Kaute Pūtea a IFRS me PBE

MAIN DIFFERENCES BETWEEN IFRS AND PBE ACCOUNTING STANDARDS

Ngā rerekētanga matua o ngā Pae Tikanga Kaute Pūtea a IFRS me PBE
Main differences between IFRS and PBE Accounting Standards

Introduction

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

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

The key differences in recognition and measurement between PBE Accounting Standards applicable to the group and IFRS (applicable to annual periods beginning on or after 1 July 2019) are set out below. Differences that impact only on presentation and disclosure have not been identified.

PBE Accounting Standards with comparable IFRS equivalent

Formation of Auckland Council Group

PBE

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

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

IFRS

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

Impact

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

Property, plant and equipment

PBE

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

IFRS

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

Impact

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

Borrowing costs

PBE

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

IFRS

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

Impact

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

Impairment of Assets

PBE

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

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

IFRS

IFRS does not provide specific guidance for the impairment of non-cash-generating assets. The value in use of an asset or a cash generating unit is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Impact

Assets with future economic benefits that are not primarily dependent on the asset's ability to generate cash and may not be impaired under PBE Accounting Standards because of the asset's ability to generate service potential might be impaired under IFRS due to limited generation of cash flows. The group's asset values may therefore be higher under PBE Accounting Standards because some impairment may not be required to be recognised, that would be required to be recognised under IFRS. Further, the value in use of an asset may be different under PBE Accounting Standards due to differences in calculation methods.

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

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

Revenue from non-exchange transactions

PBE

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

PBE IPSAS 23 Revenue from Non-Exchange Transactions deals with revenue from non-exchange transactions. The group's non-exchange revenue includes revenue from general rates, fuel tax, grants and subsidies. Fees and user charges derived from activities that are partially funded by general rates are also considered to be revenue arising from non-exchange transactions.

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

IFRS

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

Impact

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

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

Revenue from exchange transactions

PBE

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

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

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

IFRS

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

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

Impact

The group's accounting policy may result in a different timing of recognition of revenue from exchange transactions compared to IFRS 15.

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

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

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

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

PBE

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

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

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

IFRS

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

Impact

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

Fair Value Measurement

PBE

There is no specific standard in the PBE Accounting Standards, however a number of PBE

Accounting Standards contain guidance on the measurement of fair value in specific context (for example PBE IPSAS 17 Property, Plant and Equipment and PBE IFRS 9 Financial Instruments).

IFRS

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

Impact

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

Lease accounting

PBE

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

Finance leases are recognised on the statement of financial position.

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

IFRS

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

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

Impact

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

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

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

ISSN 2382-0012 (Print)
ISSN 2382-0020 (Online, PDF)

Te Kaunihera o Tāmaki Makaurau
Auckland Council