Te Whakarāpopototanga o te Rīpoata ā-Tau 2017/2018

O TE KAUNIHERA O TĀMAKI MAKAURAU

AUCKLAND COUNCIL

Annual Report 2017/2018

Pokanga 3: Ngā Pūrongo Pūtea
Volume 3: Financial Statements

Auckland Council
Te Kaunihera o Tāmaki Makaurau

ON THE COVER: Aotea Great Barrier Island is the world's third Dark Sky Sanctuary and the only island to become a sanctuary. With much of the island 'off the grid', light pollution is minimal, allowing for a good view of the spectacular night sky. Its skies have been rated as second to none.

The International Dark-Sky Association established a conservation programme in 2001 to recognise "excellent stewardship of the night sky". Designations are based on scientifically measured darkness of the sky as well as stringent outdoor lighting standards and innovative community outreach.

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.

Kupu whakataki
Welcome

Auckland Council's Annual Report 2017/2018

Auckland Council is here to deliver the services and infrastructure required for Auckland to grow into a more prosperous region, one that gives a voice to our communities and is a great place to live, visit and invest.

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

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

The Annual Report 2017/2018 covers the period 1 July 2017 to 30 June 2018, and reports against the Long-term Plan 2015-2025 and the Annual Plan 2017/2018.

Annual Report 2017/2018

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

Volume 1: Overview and service performance

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

Volume 2: Local boards

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

Volume 3: Financial statements

Volume 3 contains our financial statements.

Rārangi kōrero
Contents

About this volume

This volume of the annual report contains the financial statements of the Auckland Council and the Group for the year ended 30 June 2018. The Group includes Auckland Council (the council) and its council-controlled organisations (CCOs).

The Annual Report 2017/2018 was adopted by Auckland Council on 27 September 2018.

The references to documents and information on Auckland Council and other websites are provided solely for the convenience of the readers who may require more detailed information and none of the documents or other information on those websites forms part of the Annual Report 2017/2018.

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

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

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

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

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

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

Statement of compliance and responsibility

Compliance

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

Responsibility

The council and management of Auckland Council accept responsibility for the preparation and completion of the financial statements and the related judgements. The council and management adopted the financial statements as presented here on 27 September 2018.

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

In the opinion of Auckland Council, the annual report for the year ended 30 June 2018 presents fairly the financial performance, financial position, cash flows and service performance of Auckland Council Group and Auckland Council. There were issues identified in the underlying information supporting the reported performance of two building and resource consent targets. The council has included additional disclosure about these issues on pages 105 to 107 of Volume one.

Hon Phil Goff
Mayor of Auckland
27 September 2018

Stephen Town
Chief Executive
27 September 2018

Statement of comprehensive revenue and expenditure

For the year ended 30 June 2018

$million	Note	Group Actual 2018	Group Budget 2018	Group Actual 2017	Council Actual 2018	Council Budget 2018	Council Actual 2017
Revenue							
Rates		1,707	1,710	1,641	1,718	1,722	1,651
Fees and user charges		1,261	1,256	1,193	268	267	252
Grants and subsidies		497	677	459	22	249	16
Development and financial contributions		182	214	164	182	214	164
Other revenue		287	277	281	180	164	166
Vested assets		572	202	374	226	503	106
Finance revenue		37	8	17	107	109	91
Total revenue excluding other gains	A1	**4,543**	**4,344**	**4,129**	**2,703**	**3,228**	**2,446**
Expenditure							
Employee benefits	A3	866	864	853	500	526	508
Depreciation and amortisation	A4	865	925	874	261	264	256
Grants, contributions and sponsorship	A2	133	134	127	1,030	1,260	1,057
Other operating expenses	A2	1,548	1,419	1,464	613	481	570
Finance costs	A5	472	465	471	408	426	413
Total expenditure excluding other losses		**3,884**	**3,807**	**3,789**	**2,812**	**2,957**	**2,804**
Operating surplus/(deficit) before gains and losses		**659**	**537**	**340**	**(109)**	**271**	**(358)**
Net other gains/(losses)	A6	(112)	-	281	(117)	-	161
Share of surplus in associates and joint ventures		147	62	75	2	3	4
Surplus/(deficit) before income tax		**694**	**599**	**696**	**(224)**	**274**	**(193)**
Income tax expense	A7	34	31	56	-	-	-
Surplus/(deficit) after income tax		**660**	**568**	**640**	**(224)**	**274**	**(193)**
Other comprehensive revenue/(expenditure)							
Net gain on revaluation of property, plant and equipment		2,362	1,309	1,468	936	491	-
Tax on revaluation of property, plant and equipment		(276)	(126)	-	-	-	-
Movement in cash flow hedge reserve		5	-	3	-	-	-
Share of associates and joint ventures reserves		264	-	2	-	-	-
Net unrealised gain on revaluation of financial assets classified as available-for-sale		7	-	11	-	-	-
Total other comprehensive revenue		**2,362**	**1,183**	**1,484**	**936**	**491**	**-**
Total comprehensive revenue/ (expenditure)		**3,022**	**1,751**	**2,124**	**712**	**765**	**(193)**

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

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

Statement of financial position

As at 30 June 2018

$million	Note	Group Actual 2018	Group Budget 2018	Group Actual 2017	Council Actual 2018	Council Budget 2018	Council Actual 2017
Assets							
Current assets							
Cash and cash equivalents	D1	618	240	337	584	215	279
Receivables and prepayments	D2	379	282	345	233	201	279
Derivative financial instruments	C2	7	-	-	2	-	-
Other financial assets	C3	151	102	276	156	186	361
Inventories		41	29	35	13	8	11
Non-current assets held-for-sale	F1	35	114	332	33	115	40
Total current assets		**1,231**	**767**	**1,325**	**1,021**	**725**	**970**
Non-current assets							
Receivables and prepayments	D2	10	79	9	4	18	4
Derivative financial instruments	C2	282	263	170	278	255	161
Other financial assets	C3	121	152	141	2,029	1,627	1,814
Property, plant and equipment	B1	46,730	44,763	43,361	14,908	14,237	13,659
Intangible assets	B2	563	353	511	304	226	297
Investment property	B3	761	681	735	133	121	162
Investment in subsidiaries*	F3	-	-	-	20,630	21,379	21,068
Investment in associates and joint ventures	F3	1,751	1,083	1,096	322	453	16
Other non-current assets		13	2	11	3	2	3
Total non-current assets		**50,231**	**47,376**	**46,034**	**38,611**	**38,318**	**37,184**
Total assets		**51,462**	**48,143**	**47,359**	**39,632**	**39,043**	**38,154**
Liabilities							
Current liabilities							
Bank overdraft	D1	8	-	6	-	-	-
Payables and accruals	D3	688	757	688	623	626	673
Employee entitlements	D4	100	97	95	54	57	52
Borrowings	C1	905	1,364	1,125	764	1,024	975
Derivative financial instruments	C2	5	7	7	3	2	2
Provisions	D5	127	70	82	120	63	77
Total current liabilities		**1,833**	**2,295**	**2,003**	**1,564**	**1,772**	**1,779**
Non-current liabilities							
Payables and accruals	D3	104	83	49	55	24	27
Employee entitlements	D4	5	5	5	2	2	2
Borrowings	C1	7,927	7,180	7,175	7,549	6,803	6,729
Derivative financial instruments	C2	963	1,207	865	733	901	653
Provisions	D5	405	198	374	398	199	367
Deferred tax liabilities	F2	1,423	1,254	1,112	-	-	-
Total non-current liabilities		**10,827**	**9,927**	**9,580**	**8,737**	**7,929**	**7,778**
Total liabilities		**12,660**	**12,222**	**11,583**	**10,301**	**9,701**	**9,557**
Net assets		**38,802**	**35,921**	**35,776**	**29,331**	**29,342**	**28,597**
Equity							
Contributed equity	D6	26,732	26,729	26,728	26,569	26,569	26,569
Accumulated funds	D6	1,667	1,157	951	(997)	(563)	(824)
Reserves	D6	10,403	8,035	8,097	3,759	3,336	2,852
Total equity		**38,802**	**35,921**	**35,776**	**29,331**	**29,342**	**28,597**

*Total investments in council-controlled organisations (CCOs) and entities listed in Local Government Act 2002 section 6(4) of the council for 2018 is $21 billion (2017: $21 billion).

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

Statement of changes in equity
For the year ended 30 June 2018

Group

$million	Note	Contributed equity	Accumulated funds	Reserves	Total equity	Budget*
Balance as at 1 July 2016		**26,728**	**290**	**6,634**	**33,652**	**32,801**
Surplus after income tax		-	640	-	640	329
Other comprehensive revenue		-	-	1,484	1,484	927
Total comprehensive revenue		**-**	**640**	**1,484**	**2,124**	**1,256**
Transfers to/(from) reserves	D6	-	21	(21)	-	-
Balance as at 30 June 2017	D6	**26,728**	**951**	**8,097**	**35,776**	**34,057**
Balance as at 1 July 2017		**26,728**	**951**	**8,097**	**35,776**	**34,170**
Surplus after income tax		-	660	-	660	568
Other comprehensive revenue		-	-	2,362	2,362	1,183
Total comprehensive revenue		**-**	**660**	**2,362**	**3,022**	**1,751**
Found assets		4	-	-	4	-
Transfers (from)/to reserves	D6	-	56	(56)	-	-
Balance as at 30 June 2018	D6	**26,732**	**1,667**	**10,403**	**38,802**	**35,921**

Council

$million	Note	Contributed equity	Accumulated funds	Reserves	Total equity	Budget*
Balance as at 1 July 2016		**26,569**	**(633)**	**2,854**	**28,790**	**28,427**
Deficit after income tax		-	(193)	-	(193)	(245)
Other comprehensive revenue		-	-	-	-	-
Total comprehensive revenue/(expenditure)		**-**	**(193)**	**-**	**(193)**	**(245)**
Transfers (from)/to reserves	D6	-	2	(2)	-	-
Balance as at 30 June 2017	D6	**26,569**	**(824)**	**2,852**	**28,597**	**28,182**
Balance as at 1 July 2017		**26,569**	**(824)**	**2,852**	**28,597**	**28,577^**
Deficit after income tax		-	(224)	-	(224)	274
Other comprehensive revenue		-	-	936	936	491
Total comprehensive revenue/(expenditure)		**-**	**(224)**	**936**	**712**	**765**
Transfers to/(from) reserves	D6	-	29	(29)	-	-
Return of equity		-	22	-	22	-
Balance as at 30 June 2018	D6	**26,569**	**(997)**	**3,759**	**29,331**	**29,342^**

*The opening balances as at 1 July 2016 were updated in the Annual Budget 2017/2018 based on the most up-to-date forecast information.
^Due to a clerical error in the published Annual Budget 2017/2018, the approved figures of $28,890 million and $29,655 million did not reconcile to the Statement of Financial Position. These figures have been corrected to $28,577 million and $29,342 million respectively as shown above.

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

Statement of cash flows

For the year ended 30 June 2018

		Group			Council		
$million	Note	Actual 2018	Budget 2018	Actual 2017	Actual 2018	Budget 2018	Actual 2017
Cash flows from operating activities							
Receipts from customers, rates, grants and other services		3,972	4,102	3,660	2,286	2,487	2,139
Interest received		37	8	14	35	109	12
Dividends received		68	60	57	117	94	90
Payments to suppliers and employees		(2,523)	(2,380)	(2,418)	(2,020)	(2,240)	(2,042)
Income tax refund/(paid)		4	(8)	1	-	-	-
Interest paid		(457)	(457)	(422)	(392)	(418)	(365)
Net cash inflow/(outflow) from operating activities	F6	**1,101**	**1,325**	**892**	**26**	**32**	**(166)**
Cash flows from investing activities							
Repayment of loans to related parties		-	-	-	94	-	137
Advances of loans to related parties		-	-	-	(254)	(82)	(288)
Sale of property, plant and equipment, investment property and intangible assets		257	115	107	237	115	57
Purchase of property, plant and equipment, investment property and intangible assets		(1,665)	(2,017)	(1,620)	(471)	(511)	(474)
Acquisition of other financial assets		(132)	(6)	(154)	(123)	(6)	(174)
Proceeds from sale of other financial assets		284	236	308	284	236	316
Receipts from the Crown		218	-	-	218	-	-
Investment in joint ventures		(93)	-	-	(93)	-	-
Advances (to)/from external parties		(3)	(9)	(14)	-	(9)	(2)
Proceeds from community loan repayments		-	2	6	-	2	6
Net cash outflow from investing activities		**(1,134)**	**(1,679)**	**(1,367)**	**(108)**	**(255)**	**(422)**
Cash flows from financing activities							
Proceeds from borrowings		3,947	1,966	3,919	2,105	1,298	2,692
Repayment of borrowings		(3,640)	(1,612)	(3,205)	(1,725)	(1,075)	(1,894)
Proceeds from derivative financial instruments		48	-	28	48	-	28
Payments for derivative financial instruments		(43)	-	(64)	(41)	-	(62)
Net cash inflow from financing activities		**312**	**354**	**678**	**387**	**223**	**764**
Net increase/(decrease) in cash and cash equivalents and bank overdraft		**279**	**-**	**203**	**305**	**-**	**176**
Opening cash and cash equivalents and bank overdraft		331	240	128	279	215	103
Closing cash and cash equivalents and bank overdraft	D1	**610**	**240**	**331**	**584**	**215**	**279**

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

Basis of reporting

This section contains the significant accounting policies of the Group and the council that relate to the financial statements as a whole. Significant accounting policies are also included in the related note disclosures.

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

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

The council is an FMC Reporting Entity under the Financial Markets Conduct Act 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 CCOs, associates and joint ventures. A summary of substantive CCOs[1] is provided on the following page. Other significant entities are listed in Note F3. All entities are domiciled in New Zealand.

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

Basis of preparation

The financial statements have been prepared:

- in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), the LGA 2002, the LGACA 2009 and the Local Government (Financial Reporting and Prudence) Regulations 2014 and comply with PBE Accounting Standards;
- on a historical cost basis, except for financial instruments which have been measured at fair value (Note C2), certain classes of property, plant and equipment (Note B1) and investment property (Note B3) which have been subsequently measured at fair value;
- on a going concern basis and the accounting policies have been applied consistently throughout the period; and,
- in New Zealand dollars (NZD) and are rounded to the nearest million dollars, unless otherwise stated.

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

The following changes in the classification of the cash flow activities were made to better align the nature of the underlying cash flows:

- cash payment to employees that were capitalised to assets were moved from operating to investing activities (Group: $78 million and council: $40 million); and
- non-interest related proceeds and payments in relation to derivative financial instruments were moved from investing to financing activities (Group: net payment of $36 million and council: net payment of $34 million).

The 2017 cash flows were adjusted to reflect this change in classification.

Other changes within operating activities have been made which do not impact the net cash flow from operating activities.

Significant judgements and estimates

The preparation of the financial statements requires judgements, estimates and assumptions. Application is based on future expectations as well as historical experience and other factors, as appropriate to the particular circumstances. Judgements and estimates which are considered material to understanding the performance of the Group and the council are found in the following notes:
Note B1: Property, plant and equipment
Note C2: Derivative financial instruments
Note D5: Provisions

Budget figures

The budget figures presented in the financial statements of the Group and the council are those included in the Annual Budget 2017/2018 (Annual Plan) adopted by the council on 30 June 2017 and are consistent with the accounting policies used to prepare the financial statements.

Basis of consolidation

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

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

Basis of reporting

The substantive CCOs within the Group comprise the following:

Name	Principal activity and nature of relationship where there is no direct ownership	Percentage ownership % 2018	Percentage ownership % 2017
Auckland Transport	Owns the public transport network and manages the transport infrastructure and services in Auckland. **Auckland Transport is a body corporate with perpetual succession and is treated under the LGACA 2009 as if the council is its sole shareholder.*	*	*
Auckland Council Investments Limited (ACIL)	Holds and manages the Group's major investments, including: • Ports of Auckland Limited (POAL) (100% owned) • Auckland International Airport Limited (22.15% owned).	100	100
Auckland Tourism, Events and Economic Development Limited	Manages projects for economic development, tourism and events promotion in the Auckland region.	100	100
Panuku Development Auckland Limited	Facilitates the development and rejuvenation of urban locations including the Auckland waterfront. Optimises the council's property portfolio.	100	100
Regional Facilities Auckland (RFA)	Supports and promotes the engagement of the Auckland community in arts, culture, heritage, leisure, sports and entertainment activities and develops, owns and manages the venues for these activities. **Regional Facilities Auckland is a charitable trust of which Regional Facilities Auckland Limited, a 100% owned subsidiary of the council, is the sole trustee.*	*	*
Watercare Services Limited (Watercare)	Owns and manages the Auckland region's water and wastewater assets. *Watercare is restricted by LGACA 2009 section 57(1)(b) from paying any dividend or distributing any surplus directly or indirectly to the council.*	100	100

Implementation of new and amended standards
PBE International Financial Reporting Standard (IFRS) 9 Financial Instruments is effective from periods beginning on or after 1 January 2021. PBE IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and relaxes current requirements for hedge accounting. The Group has completed an initial assessment of the impact of adopting this standard and intends to early adopt the standard when it becomes effective for for-profit entities from the period beginning on 1 July 2018. On adoption, all changes will be made prospectively, and comparative financial information will not be restated with the exception of retrospective re-classification of affected financial instruments.

Classification and measurement
The Group and the council have determined that adopting PBE IFRS 9 does not materially impact the classification and measurement of financial instruments of the Group and the council.

Hedge accounting and impairment
The Group and the council have initially concluded that there is unlikely to be a material impact on hedge accounting or impairment when this standard is adopted, however, further work is required to determine the impact of applying the expected credit loss model to related party loans and financial guarantees provided.

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

Section A: Results of the year

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

The notes in the section are as follows:

A1 Revenue

A2 Operating expenses

A3 Employee benefits

A4 Depreciation and amortisation

A5 Finance costs

A6 Net other gains and losses

A7 Income tax

Section A: Results of the year

A1 Revenue

Accounting policy

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

Type	Recognition & measurement
Rates	In full at point of issuance of the ratings notice and measured at the amount assessed, which is the fair value of the cash received or receivable.
Grants and subsidies	When they become receivable unless there is an obligation in substance to return the funds if conditions of the grants and subsidies are not met. If there is such an obligation, the grants and subsidies are initially recorded in the statement of financial position at fair value as grants and subsidies received in advance and recognised as revenue when conditions of the grant and subsidies are satisfied.
Development contributions	When the council is capable of providing the service for which the contribution was levied.
Financial contributions	When they are expended on the activity for which the contribution was levied.
Vested assets[1]	When control of the asset is transferred to the Group and the council at its fair value.
Fines and infringements	When the infringement notice is issued.
Finance revenue[2]	Using the effective interest method.
Dividend revenue	When the Group and the council's right to receive the dividend is established.
Fees and user charges	
Water and wastewater	When invoiced or accrued in the case of unbilled services at fair value of cash received or receivable.
Sale of goods	When the substantial risks and rewards of ownership have been passed to the buyer.
Sale of services	On a percentage of completion basis over the period of the service supplied.
Port operations	In the period the services are rendered, by reference to the percentage of completion of the specific transaction.
Consents	By reference to the percentage of completion of the transaction at balance date based on the actual service rendered.
Licences and permits	On receipt of application as these are non-refundable.

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

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

Section A: Results of the year

A1 Revenue (continued)

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

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Revenue from non-exchange transactions:				
Revenue from rates				
General	1,505	1,452	1,515	1,462
Targeted	193	178	193	178
Penalties	18	18	18	18
Rates remissions	(7)	(6)	(7)	(6)
Discounts	(2)	(1)	(1)	(1)
Total revenue from rates	**1,707**	**1,641**	**1,718**	**1,651**
Revenue from transfers				
Sales of goods and services	287	274	88	84
Vested assets	572	374	226	106
Fines and infringements	36	34	4	3
Consents, licences and permits	177	166	176	165
Capital grants and subsidies	211	187	4	2
Operating grants and subsidies	286	272	18	14
Other transfer revenue	102	105	43	43
Total revenue from transfers	**1,671**	**1,412**	**559**	**417**
Total revenue from non-exchange transactions	**3,378**	**3,053**	**2,277**	**2,068**
Revenue from exchange transactions:				
Water and wastewater	479	456	-	-
Sales of goods and services	50	49	-	-
Port operations	232	214	-	-
Development and financial contributions	182	164	182	164
Finance revenue	37	17	107	91
Dividends received	2	10	109	96
Infrastructure growth charges	89	79	-	-
Other exchange revenue	94	87	28	27
Total revenue from exchange transactions	**1,165**	**1,076**	**426**	**378**
Total revenue	**4,543**	**4,129**	**2,703**	**2,446**

The annual rates revenue of the council for the year ended 30 June 2018 for the purposes of the Local Government Funding Agency Limited (LGFA) Guarantee and Indemnity Deed disclosure is $1.7 billion (2017: $1.7 billion). Refer to Note F4 for further information.

Section A: Results of the year

A1 Revenue (continued)

Explanation of significant variances against budget

	Group		Council	
2018 $million	**Actual**	**Budget**	**Actual**	**Budget**
Total revenue	4,543	4,344	2,703	3,228

Group

Revenue is higher than budget by $199 million mainly due to the following:

- higher amount of vested infrastructure assets received than budgeted ($370 million) as a result of increasing infrastructure growth;
- an increase in grants from New Zealand Transport Agency of ($44 million) for Auckland Transport;
- higher finance revenue ($29 million) due to unbudgeted interest received from the Crown for CRL assets prefunded by the council ($15 million), and higher than expected cash and short-term deposits;
- income following the acquisition of two port owned subsidiaries ($10 million) that were not budgeted for; and,
- infringement fees were higher than expected ($5 million).

The above favourable results are partly offset by the following:

- reclassification of funding for the City Rail Link from grant income in the budget to a reduction in the value of the assets it relates to ($229 million);
- income from development agreements were short of expectation ($32 million) due to the number of expected agreements with developers not eventuating; and,
- rates penalties on late payment were below budget ($3 million) due to more payments being made on time than anticipated.

Council

Revenue is lower than budget by $525 million mainly due to the following:

- reclassification of vested assets from Auckland Transport in relation to the City Rail Link, from vested asset income in the budget to a reduction in the council's investment in Auckland Transport ($439 million);
- reclassification of the Crown's reimbursement for City Rail Link assets from grant income in the budget, to a reduction in the value of the assets it relates to ($229 million);
- income from development agreements were short of expectation ($32 million) due to the number of expected agreements with developers not eventuating; and
- rates penalties on late payment were below budget ($3 million) due to more payments being made on time than anticipated.

This above unfavourable result is partly offset by:

- higher amount of vested infrastructure assets received than budgeted ($162 million) as a result of increasing infrastructure growth; and
- higher than anticipated dividends from POAL ($12 million) and AIAL ($3 million).

Local government disclosures

The council's rating base information relating to the preceding financial year as at 30 June 2017 follows:

	2017
Number of rating units	547,635
Total capital value of rating units (in $million)	495,652
Total land value of rating units (in $million)	293,356

Section A: Results of the year

A2 Operating expenses

Accounting policy

Grants and subsidies

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

Impairment of property, plant and equipment and intangible assets

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

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

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

Assets are considered cash generating if their primary objective is to provide a commercial return. The value in use for cash-generating assets is the present value of expected future cash flows.

For non-cash generating assets, value in use is determined using an approach based on a depreciated replacement cost.

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

Operating expenses include:

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Grants, contributions and sponsorship:				
Funding to CCOs	-	-	911	942
Other grants	133	127	119	115
	133	127	1,030	1,057
Goods and services	723	696	191	168
Consultancy and professional services	140	151	59	70
Repairs and maintenance	263	247	127	116
Utilities and occupancy	75	84	36	46
Rental and lease	81	50	24	29
Impairment of receivables	5	2	3	-
Fees paid to elected members	10	10	10	10
Fees paid to auditors	5	4	2	1

Explanation of significant variances against budget

	Group		Council	
2018 $million	**Actual**	**Budget**	**Actual**	**Budget**
Other operating expenses	1,548	1,419	613	481

Section A: Results of the year

A2 Operating expenses (continued)

Explanation of significant variances against budget (continued)

Group
Other operating expenses are above budget by $129 million mainly due to the following:

- an increase in the provision for weathertightness claims ($82 million) mainly related to multi-unit claims;
- additional unbudgeted expenses were incurred following the acquisition of two port owned subsidiaries ($20 million);
- a provision for remediation of waterfront land and early lease termination fees ($13 million), both incurred in preparation of America's Cup, and were budgeted in future years;
- outsourcing of various resource consent, and amenities and infrastructure maintenance functions due to staff shortages ($15 million); and,
- higher than anticipated provision for non-collectability of debts ($3 million).

The above variances are partly offset by a favourable variance from consultancy and professional fees ($11 million), including savings of $3 million in the Mayor's office and local board services.

The remaining net favourable variances of $4 million are individually insignificant.

Council
The council's other operating expenses are higher than budget by $132 million mainly due to the following:

- an increase in the provision for weathertightness claims ($82 million) mainly related to multi-unit claims;
- a provision remediation of waterfront land and early lease termination fees ($13 million), both incurred in preparation of America's Cup, and were budgeted in future years;
- additional outsourced resources to manage resource consent demand ($9 million) and for regulatory engineering costs ($6 million);
- unfavourable community facilities variances ($7 million) relating to costs for storm damage and farm operating costs; and,
- higher than anticipated provision for non-collectability of debts ($2 million).

The remaining unfavourable variances of $13 million are individually insignificant.

Local government disclosures

Other financial contributions (presented under "Grant, contributions and sponsorship")
Under the Auckland War Memorial Museum Act 1996, Museum of Transport and Technology Act 2000 and Auckland Regional Amenities Funding Act 2008, the council is required to disclose information about its financial contributions to the following entities.

$million	Council 2018	Council 2017
Auckland War Memorial Museum	31	30
MOTAT	15	13
Auckland Regional Amenities Funding Board	16	16

Section A: Results of the year

A2 Operating expenses (continued)

Fees paid to auditors

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

	Group		Council	
$000	**2018**	**2017**	**2018**	**2017**
Audit of financial statements	**3,391**	**3,369**	**1,190**	**1,153**
Other assurance-related services:				
Review of interim financial statements	313	307	117	114
Agreed upon procedures on foreign borrowings	43	43	43	43
Debenture Trust Deed services	16	4	16	4
Required by legislation:				
Review of service performance	16	43	16	43
2015/2025 Long-term Plan amendment relating to Housing for Older people arrangement	-	15	-	15
2018/2028 Long-term Plan	685	-	685	-
	1,073	**412**	**877**	**219**
Other services:				
Cyber/cloud security review and assistance	347	284	-	-
Central interceptor probity	91	-	-	-
Forensic services	-	79	-	-
Procurement assurance	-	36	-	-
Other*	28	16	-	-
Total fees to auditors	**4,930**	**4,196**	**2,067**	**1,372**

* Other includes enterprise resource planning systems review, negative pledge reporting and tax advisory.

A3 Employee benefits

Accounting policy

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

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Salaries and wages	794	767	471	460
Contributions to defined contribution schemes	23	21	13	12
Termination benefits	7	13	4	11
Other	42	52	12	25
Total employee benefits	**866**	**853**	**500**	**508**

Refer to Note D4 for the employee entitlement liability as at 30 June 2018 and 30 June 2017 and Note F5 for further information on the remuneration of key management personnel and elected representatives.

Explanation of significant variances against budget

	Group		Council	
2018 $million	**Actual**	**Budget**	**Actual**	**Budget**
Employee benefits	866	864	500	526

Section A: Results of the year

A3 Employee benefits (continued)

Explanation of significant variances against budget (continued)

Council
Employee benefits are lower than budgeted by $26 million mainly due to staff vacancies as a result of restructuring and external labour market conditions creating recruitment challenges.

A4 Depreciation and amortisation

Accounting policy

Depreciation is provided on all property, plant and equipment except for land, works of art and specified cultural heritage assets. Depreciation is calculated to write down the cost or revalued amount of the assets on a straight-line basis over their useful economic lives (Note B1).

Amortisation is provided on intangible assets, except rights to acquire, and is calculated to write down the cost of the assets on a straight-line basis over their useful economic lives (Note B2).

Local government disclosures

Under the Local Government (Financial Reporting and Prudence) Regulations 2014, the council is required to disclose the Group's depreciation and amortisation by group of activities.

	Group	
$million	**2018**	**2017**
Regional planning	2	2
Waterfront development	8	9
Economic growth and visitor economy	3	1
Regional facilities	27	27
Regulation	2	2
Solid waste and environmental services	5	4
Stormwater management	56	55
Investment	23	24
Organisational support	101	103
Regional community services	23	20
Local community services	1	1
Regional parks, sport and recreation	69	67
Local parks, sport and recreation	1	1
Public transport and travel demand management	85	75
Roads and footpaths	230	247
Parking and enforcement	10	9
Water supply	100	101
Wastewater treatment and disposal	119	126
Total depreciation and amortisation (Notes B1 and B2)	**865**	**874**

Section A: Results of the year

A4 Depreciation and amortisation (continued)

Explanation of significant variances against budget

2018 $million	Group Actual	Group Budget	Council Actual	Council Budget
Depreciation and amortisation	865	925	261	264

Group

The favourable variance of $60 million is primarily due to:

- longer than budgeted useful lives for road assets; and
- the delayed delivery of capital projects across the Group.

A5 Finance costs

Accounting policy

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

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Interest	454	422	391	364
Interest expense on provisions due to change in discount rate (refer Note D5)	5	36	5	36
Interest expense on provisions due to discount unwind (refer Note D5)	11	8	11	8
Net loss on early close-out of swaps	-	3	-	3
Other	2	2	1	2
Total finance costs	**472**	**471**	**408**	**413**

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

Explanation of significant variances against budget

2018 $million	Group Actual	Group Budget	Council Actual	Council Budget
Finance costs	472	465	408	426

Group

Finance costs were unfavourable to budget by $7 million primarily due to higher than budgeted time value of money adjustments on long term provisions.

Council

The favourable variance of $18 million is a result of lower interest expense of $24 million compared to budget due to lower levels of borrowings, offset by higher than budgeted time value of money adjustments on long term provisions of $6 million.

Section A: Results of the year

A6 Net other gains and losses

$million	Group 2018	Group 2017	Council 2018	Council 2017
Net gains on change in fair value of derivative financial instruments:				
Net gains attributable to foreign exchange movements	227	13	227	12
Net (losses)/gains attributable to interest rate movements	(207)	224	(184)	134
	20	237	43	146
Net increase in fair value of investment property	24	61	9	15
Net increase in financial instruments designated at fair value through surplus/(deficit)	5	16	5	15
Net foreign exchange (losses) recognised in surplus/(deficit) on financial instruments held at amortised cost	(227)	(13)	(227)	(13)
Reversal of previous impairment/(Impairment) of property, plant and equipment and intangible assets	12	(12)	(1)	(7)
Impairment of investment in subsidiaries, associates and joint ventures	-	(6)	-	-
Net gains/(losses) on disposal of property, plant and equipment and intangible assets	43	(2)	54	5
Gain on business combination	11	-	-	-
Total net other gains and losses	**(112)**	**281**	**(117)**	**161**

Explanation of significant variances against budget

2018 $million	Group Actual	Group Budget	Council Actual	Council Budget
Net other losses	(112)	-	(117)	-

Net other gains and losses for the Group of $112 million and for the council of $117 million are not budgeted. They are mainly attributable to losses on derivative financial instruments, driven by declining interest rates. This loss is offset in both Group and the council by net gains on disposal of property, plant and equipment and an increase in fair value of investment property.

A7 Income tax

Accounting policy

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

Income tax comprises current tax and deferred tax calculated using the tax rate that has been enacted or substantively enacted by the reporting date. Income tax is charged or credited to the surplus or deficit, except when it relates to items that are recognised in other comprehensive revenue and expenditure or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive revenue and expenditure or directly in equity.

Current tax is the amount of income tax payable or refundable in the current period, plus any adjustments to income tax payable in respect of prior periods. Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Refer to Note F2 for information on deferred tax assets and liabilities.

Section A: Results of the year

A7 Income tax (continued)

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Components of income tax expense				
Current tax	-	-	-	-
Deferred tax	34	56	-	-
Total income tax expense	**34**	**56**	**-**	**-**
Relationship between income tax and accounting surplus/(deficit)				
Net surplus/(deficit) before tax	694	696	(224)	(193)
(Deficit)/surplus from non-taxable activities	(485)	(419)	224	193
Taxable surplus	**209**	**277**	**-**	**-**
Prima facie income tax at 28% (2017: 28%)	59	77	-	-
Prior period adjustment	3	1	-	-
Tax effect of permanent differences	42	33	-	-
Associates' income net of tax	(41)	(20)	-	-
Loss offset net of group losses utilised	4	4	-	-
De-recognition of deferred tax assets	1	-	-	-
Tax credits	(23)	(21)	-	-
Timing differences	(1)	-	-	-
Reversal of tax liability for prior year tax loss offsets	(7)	(16)	-	-
Other adjustments	(3)	(2)	-	-
Total income tax expense	**34**	**56**	**-**	**-**

Imputation credit

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Imputation credits available for use in subsequent reporting periods	55	53	-	-

A consolidated income tax group was formed from 1 July 2013. Significant entities in the Group are included with the exception of Watercare. The $55 million (2017: $53 million) of imputation credits relates to the consolidated financial group. The total imputation credit available for use by each member of the consolidated income tax group is $24 million (2017: $23 million).

Section B: Long-term assets

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

The notes in this section are as follows:

B1 Property, plant and equipment

B2 Intangible assets

B3 Investment property

Section B: Long-term assets

B1 Property, plant and equipment

Accounting policy

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

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

Initial recognition and subsequent measurement

Property, plant and equipment is 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.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Group 2018 $million	Opening balance Cost/ valuation	Opening balance Accumulated depreciation and impairment	Opening balance Carrying amount	Current year Current year movements*	Closing balance Cost/ valuation	Closing balance Accumulated depreciation and impairment	Closing balance Carrying amount
Infrastructure							
Roads and formation	9,690	(8)	9,682	240	10,156	(234)	9,922
Water and wastewater	7,278	(310)	6,968	889	7,857	-	7,857
Machinery	1,023	(98)	925	204	1,137	(8)	1,129
Storm water	4,383	(93)	4,290	214	4,504	-	4,504
Land	6,472	-	6,472	282	6,754	-	6,754
Work in progress	865	-	865	21	886	-	886
Other	5	-	5	(5)	-	-	-
	29,716	**(509)**	**29,207**	**1,845**	**31,294**	**(242)**	**31,052**
Operational							
Land and buildings	5,254	(94)	5,160	757	5,931	(14)	5,917
Train stations	579	-	579	(12)	593	(26)	567
Bus stations and shelters	80	-	80	48	132	(4)	128
Marina structures	65	(2)	63	17	85	(5)	80
Rolling stock	490	(54)	436	(1)	435	-	435
Wharves	425	(18)	407	56	467	(4)	463
Works of art	293	(1)	292	34	326	-	326
Work in progress	434	-	434	(136)	298	-	298
Other	1,019	(487)	532	101	1,207	(574)	633
	8,639	**(656)**	**7,983**	**864**	**9,474**	**(627)**	**8,847**
Restricted							
Parks, reserves and buildings	5,030	(3)	5,027	573	5,600	-	5,600
Improvements	1,183	(282)	901	17	1,259	(341)	918
Specified cultural and heritage	150	-	150	-	150	-	150
Work in progress	93	-	93	70	163	-	163
	6,456	**(285)**	**6,171**	**660**	**7,172**	**(341)**	**6,831**
Total Group	**44,811**	**(1,450)**	**43,361**	**3,369**	**47,940**	**(1,210)**	**46,730**

*refer to next page for further details.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

	Current year movements							
Group 2018 $million	**Transfers from capital work in progress**	**Additions**	**Depreciation (Note A4)**	**Impairment**	**Disposals**	**Transfers***	**Revaluations, net of accumulated depreciation**	**Total**
Infrastructure								
Roads and formation	461	-	(226)	-	-	5	-	**240**
Water and wastewater	126	-	(149)	-	(9)	-	921	**889**
Machinery	233	-	(51)	-	(2)	(1)	25	**204**
Storm water	173	-	(49)	-	(1)	-	91	**214**
Land	296	-	-	-	(2)	(12)	-	**282**
Work in progress	(1,293)	1,314	-	-	-	-	-	**21**
Other	4	-	-	-	-	(9)	-	**(5)**
	-	**1,314**	**(475)**	**-**	**(14)**	**(17)**	**1,037**	**1,845**
Operational								
Land and buildings	150	-	(86)	(1)	(102)	(37)	833	**757**
Train stations	14	-	(26)	-	-	-	-	**(12)**
Bus stations and shelters	52	-	(4)	-	-	-	-	**48**
Marina structures	-	-	(2)	-	-	19	-	**17**
Rolling stock	1	-	(15)	-	-	-	13	**(1)**
Wharves	19	-	(10)	-	-	8	39	**56**
Works of art	4	-	-	-	-	4	26	**34**
Work in progress	(425)	439	-	-	(150)	-	-	**(136)**
Other	185	-	(96)	-	4	8	-	**101**
	-	**439**	**(239)**	**(1)**	**(248)**	**2**	**911**	**864**
Restricted								
Parks, reserves and buildings	171	-	(3)	(1)	(2)	(15)	423	**573**
Improvements	73	-	(59)	-	-	3	-	**17**
Specified cultural and heritage	-	-	-	-	-	-	-	**-**
Work in progress	(244)	314	-	-	-	-	-	**70**
	-	**314**	**(62)**	**(1)**	**(2)**	**(12)**	**423**	**660**
Total Group	**-**	**2,067**	**(776)**	**(2)**	**(264)**	**(27)**	**2,371**	**3,369**

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

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Group 2017 $million	Opening balance: Cost/ valuation	Opening balance: Accumulated depreciation and impairment	Opening balance: Carrying amount	Current year: Current year movements*	Closing balance: Cost/ valuation	Closing balance: Accumulated depreciation and impairment	Closing balance: Carrying amount
Infrastructure							
Roads and formation	8,496	(459)	8,037	1,645	9,690	(8)	9,682
Water and wastewater	7,054	(150)	6,904	64	7,278	(310)	6,968
Machinery	979	(51)	928	(3)	1,023	(98)	925
Storm water	4,253	(46)	4,207	83	4,383	(93)	4,290
Land	6,299	-	6,299	173	6,472	-	6,472
Work in progress	850	-	850	15	865	-	865
Other	3	-	3	2	5	-	5
	27,934	**(706)**	**27,228**	**1,979**	**29,716**	**(509)**	**29,207**
Operational							
Land and buildings	5,213	(14)	5,199	(39)	5,254	(94)	5,160
Train stations	548	(23)	525	54	579	-	579
Bus stations and shelters	68	(9)	59	21	80	-	80
Marina structures	135	(13)	122	(59)	65	(2)	63
Rolling stock	487	(39)	448	(12)	490	(54)	436
Wharves	385	(9)	376	31	425	(18)	407
Works of art	271	-	271	21	293	(1)	292
Work in progress	379	-	379	55	434	-	434
Other	876	(398)	478	54	1,019	(487)	532
	8,362	**(505)**	**7,857**	**126**	**8,639**	**(656)**	**7,983**
Restricted							
Parks, reserves and buildings	4,962	-	4,962	65	5,030	(3)	5,027
Improvements	1,099	(226)	873	28	1,183	(282)	901
Specified cultural and heritage	150	-	150	-	150	-	150
Work in progress	86	-	86	7	93	-	93
	6,297	**(226)**	**6,071**	**100**	**6,456**	**(285)**	**6,171**
Total Group	**42,593**	**(1,437)**	**41,156**	**2,205**	**44,811**	**(1,450)**	**43,361**

*refer to next page for further details.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Group 2017 $million	Transfers from capital work in progress	Additions	Depreciation (Note A4)	Impairment	Disposals	Transfers*	Revaluations, net of accumulated depreciation	Total
	Current year movements							
Infrastructure								
Roads and formation	501	-	(244)	-	-	3	1,385	**1,645**
Water and wastewater	231	-	(162)	-	(5)	-	-	**64**
Machinery	48	-	(48)	-	(3)	-	-	**(3)**
Storm water	131	-	(47)	-	(1)	-	-	**83**
Land	189	-	-	-	(7)	(9)	-	**173**
Work in progress	(1,104)	1,119	-	-	-	-	-	**15**
Other	4	-	-	-	-	(2)	-	**2**
	-	**1,119**	**(501)**	**-**	**(16)**	**(8)**	**1,385**	**1,979**
Operational								
Land and buildings	166	-	(81)	(4)	(45)	(75)	-	**(39)**
Train stations	14	-	(22)	-	-	-	62	**54**
Bus stations and shelters	21	-	(4)	-	-	-	4	**21**
Marina structures	-	-	(2)	-	-	(61)	4	**(59)**
Rolling stock	5	-	(15)	-	(2)	-	-	**(12)**
Wharves	48	-	(9)	-	-	(8)	-	**31**
Works of art	7	-	-	-	-	1	13	**21**
Work in progress	(362)	567	-	-	-	(150)	-	**55**
Other	101	-	(94)	-	(6)	53	-	**54**
	-	**567**	**(227)**	**(4)**	**(53)**	**(240)**	**83**	**126**
Restricted								
Parks, reserves and buildings	66	-	(3)	(1)	(4)	7	-	**65**
Improvements	82	-	(55)	-	-	1	-	**28**
Specified cultural and heritage	-	-	-	-	-	-	-	**-**
Work in progress	(148)	155	-	-	-	-	-	**7**
	-	**155**	**(58)**	**(1)**	**(4)**	**8**	**-**	**100**
Total Group	**-**	**1,841**	**(786)**	**(5)**	**(73)**	**(240)**	**1,468**	**2,205**

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

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Council 2018 $million	Opening balance Cost/ valuation	Opening balance Accumulated depreciation and impairment	Opening balance Carrying amount	Current year Current year movements*	Closing balance Cost/ valuation	Closing balance Accumulated depreciation and impairment	Closing balance Carrying amount
Infrastructure							
Storm water	4,377	(93)	4,284	214	4,498	-	4,498
Work in progress	101	-	101	(5)	96	-	96
Other	6	-	6	(6)	-	-	-
	4,484	**(93)**	**4,391**	**203**	**4,594**	**-**	**4,594**
Operational							
Land and buildings	2,819	(49)	2,770	386	3,158	(2)	3,156
Works of art	13	-	13	27	40	-	40
Work in progress	170	-	170	(34)	136	-	136
Other	409	(259)	150	6	455	(299)	156
	3,411	**(308)**	**3,103**	**385**	**3,789**	**(301)**	**3,488**
Restricted							
Parks, reserves and buildings	5,024	(3)	5,021	574	5,595	-	5,595
Improvements	1,182	(282)	900	18	1,258	(340)	918
Specified cultural and heritage	151	-	151	(1)	150	-	150
Work in progress	93	-	93	70	163	-	163
	6,450	**(285)**	**6,165**	**661**	**7,166**	**(340)**	**6,826**
Total Council	**14,345**	**(686)**	**13,659**	**1,249**	**15,549**	**(641)**	**14,908**

*refer to next page for further details.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Council 2018 $million	Current year movements							
	Transfers from capital work in progress	Additions	Depreciation (Note A4)	Impairment	Disposals	Transfers*	Revaluations, net of accumulated depreciation	Total
Infrastructure								
Storm water	173	-	(49)	-	(1)	-	91	**214**
Work in progress	(177)	172	-	-	-	-	-	**(5)**
Other	4	-	-	-	(11)	1	-	**(6)**
	-	**172**	**(49)**	**-**	**(12)**	**1**	**91**	**203**
Operational								
Land and buildings	98	12	(52)	(1)	(29)	(37)	395	**386**
Works of art	1	-	-	-	-	-	26	**27**
Work in progress	(142)	108	-	-	-	-	-	**(34)**
Other	43	7	(44)	-	5	(5)	-	**6**
	-	**127**	**(96)**	**(1)**	**(24)**	**(42)**	**421**	**385**
Restricted								
Parks, reserves and buildings	173	4	(3)	(1)	(4)	(17)	422	**574**
Improvements	73	3	(59)	-	-	1	-	**18**
Specified cultural and heritage	-	-	-	-	-	(1)	-	**(1)**
Work in progress	(246)	316	-	-	-	-	-	**70**
	-	**323**	**(62)**	**(1)**	**(4)**	**(17)**	**422**	**661**
Total Council	**-**	**622**	**(207)**	**(2)**	**(40)**	**(58)**	**934**	**1,249**

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

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Council 2017 $million	Opening balance Cost/ valuation	Opening balance Accumulated depreciation and impairment	Opening balance Carrying amount	Current year Current year movements*	Closing balance Cost/ valuation	Closing balance Accumulated depreciation and impairment	Closing balance Carrying amount
Infrastructure							
Storm water	4,247	(46)	4,201	83	4,377	(93)	4,284
Work in progress	91	-	91	10	101	-	101
Other	3	-	3	3	6	-	6
	4,341	**(46)**	**4,295**	**96**	**4,484**	**(93)**	**4,391**
Operational							
Land and buildings	2,750	(1)	2,749	21	2,819	(49)	2,770
Works of art	10	-	10	3	13	-	13
Work in progress	129	-	129	41	170	-	170
Other	380	(217)	163	(13)	409	(259)	150
	3,269	**(218)**	**3,051**	**52**	**3,411**	**(308)**	**3,103**
Restricted							
Parks, reserves and buildings	4,953	-	4,953	68	5,024	(3)	5,021
Improvements	1,099	(226)	873	27	1,182	(282)	900
Specified cultural and heritage	151	-	151	-	151	-	151
Work in progress	87	-	87	6	93	-	93
	6,290	**(226)**	**6,064**	**101**	**6,450**	**(285)**	**6,165**
Total Council	**13,900**	**(490)**	**13,410**	**249**	**14,345**	**(686)**	**13,659**

*refer to next page for further details.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Council 2017 $million	Current year movements: Transfers from capital work in progress	Additions	Depreciation (Note A4)	Impairment	Disposals	Transfers*	Revaluations, net of accumulated depreciation	Total
Infrastructure								
Storm water	131	-	(47)	-	(1)	-	-	**83**
Work in progress	(136)	146	-	-	-	-	-	**10**
Other	5	-	-	-	(5)	3	-	**3**
	-	**146**	**(47)**	**-**	**(6)**	**3**	**-**	**96**
Operational								
Land and buildings	99	27	(49)	(1)	(20)	(35)	-	**21**
Works of art	2	1	-	-	-	-	-	**3**
Work in progress	(138)	179	-	-	-	-	-	**41**
Other	37	7	(47)	-	(6)	(4)	-	**(13)**
	-	**214**	**(96)**	**(1)**	**(26)**	**(39)**	**-**	**52**
Restricted								
Parks, reserves and buildings	66	1	(3)	(1)	(4)	9	-	**68**
Improvements	82	1	(55)	-	(1)	-	-	**27**
Specified cultural and heritage	-	-	-	-	-	-	-	**-**
Work in progress	(148)	154	-	-	-	-	-	**6**
	-	**156**	**(58)**	**(1)**	**(5)**	**9**	**-**	**101**
Total Council	**-**	**516**	**(201)**	**(2)**	**(37)**	**(27)**	**-**	**249**

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

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Work in progress by asset class

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Infrastructure				
Roads and formation	384	309	-	-
Water and wastewater	406	455	-	-
Storm water	96	101	96	101
	886	**865**	**96**	**101**
Operational				
Land and buildings	180	129	97	102
Train stations	41	150	-	-
Rolling stock	1	1	-	-
Wharves	3	3	-	-
Works of art	5	3	5	4
Other	68	148	34	64
	298	**434**	**136**	**170**
Restricted				
Parks, reserves and buildings	61	12	61	12
Improvements	102	81	102	81
	163	**93**	**163**	**93**
Total	**1,347**	**1,392**	**395**	**364**

Revaluation

Accounting policy

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

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

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Significant judgements and estimates

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

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

It is assumed that all asset classes have no residual value at the end of their useful lives.

Operational land and buildings and works of art are revalued based on available market information relating to these assets.

Independent valuer and key assumptions

Infrastructure	
Water and wastewater and Machinery	Independent valuer: Beca Projects NZ Limited. The machinery of the Group comprises engines and turbines installed at the water and wastewater pump stations. These are revalued together with the water and wastewater assets. The key assumptions used for both classes are: • Construction costs based on recent contract-based construction work and the unit rates reflect the costs of replacing assets. • Useful lives of assets are calculated as the lesser of their physical or economic lives. • The capital goods price index (CGPI) was used where indexation is appropriate. The CGPI rate represents estimated standard replacement costs for asset components in accordance with the modern equivalent asset (MEA) approach. At the time of valuation, the CGPI was available to the March 2018 quarter and an estimate was made for the June 2018 quarter.
Stormwater	Independent valuer: AON New Zealand who performed a peer-review of in-house valuation. Key assumptions: • Unit rates for replacement have been applied to the assets based on size, material, depth, asset sub-type and location. • Unit rates have been derived from stormwater physical works costs. These are then indexed using Statistics NZ Capital Goods Price Index for civil constructions to convert them to current dollar value. • Condition information and age have been used to determine remaining useful lives.
Roads and formation	Independent valuer: ANA Group Limited. Key assumptions: • Unit rates for road construction were based on the most current contracted rates applicable to the Group. Where there is no current contracted unit rate information available, the most recent rates are used indexed for the impact of inflation. The unit rate applied to the pavement depths has changed from 350 millimetres (mm) in 2014 to 600mm in 2017. • Remaining useful life of the asset considering the age, condition information held on these assets and the asset's future service potential. These assumptions can be affected by local conditions such as ground type, weather patterns and road usage.
Operational	
Land and buildings	Independent valuers: Bayleys Valuation Limited, Beca Projects NZ Limited, Quotable Value Limited, NAI Harcourts NZ and John Foord (Asia) Pte Limited. Key assumptions: • Market value based on recent equivalent sales information. • DRC is used where no market exists for operational buildings with allowance for age, condition and configuration of the building.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Independent valuer and key assumptions (continued)

Operational (continued)	
Train stations	Independent valuer: Opus International Consultants Limited Key assumptions: • Optimised replacement cost to the extent that optimisation can occur in the normal course of business using commercially available technology. • Assets with unlimited engineering lives are adjusted to have a typical useful life of 60 years or less reflecting the rate of change and obsolescence in the environment for each elemental value.
Bus stations and shelters	Independent valuer: ANA Group Limited Key assumptions: • Optimised replacement cost to the extent that optimisation can occur in the normal course of business using commercially available technology • Remaining useful life of the asset based on the age, condition and the asset's future service potential.
Marina structures	Independent valuers: Seagar & Partners Limited Key assumptions: • Discounted cash flow calculation using market estimates of the cash flow able to be generated by the asset discounted at a market-based rate of return.
Rolling stock	Independent valuers: KPMG Key assumptions: • Optimised replacement cost to the extent that optimisation can occur in the normal course of business using commercially available technology • Useful lives based on an expected vehicle replacement programme, which defines the expected economic and/or physical lives of the different vehicle types.
Wharves	Independent valuer: Opus International Consultants Limited, Beca Projects NZ Limited, Jones Lang Lasalle Limited and NAI Harcourts NZ. Key assumptions: • Optimised replacement cost to the extent that optimisation can occur in the normal course of business using commercially available technology • Useful lives are estimated at 100 years or less at an element level, reflecting the marine environment, rate of change and obsolescence, loadings and the predominance of concrete and steel structural elements.
Works of art	Independent valuer: Auckland Art Gallery in-house curators (2017: Sotheby's (London) and Mossgreen-Webb's (Auckland), and Art and Object (Auckland)) Key assumptions: • The fair values of artworks are determined by reference to observable prices in an active market and recent transactions on arm's-length terms, with regards to the asset's condition.
Restricted	
Parks, reserves and buildings	Independent valuer: Quotable Value Limited Key assumptions: • Large reserves are valued based on a rural land value plus locational adjustment taking into consideration active/passive zone differentials which are based on the valuers' professional judgements. • Buildings are based on DRC determined with reference to recent construction contracts and recent costing obtained from construction details and Property Institute of New Zealand's cost information.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Asset class	Last revalued date	Asset revaluation reserve (in $million)				Net change for the period (in $million)	
		Group		Council			
		2018	2017	2018	2017	Group	Council
Infrastructure							
Water and wastewater	30 June 2018	1,219	655	-	-	564	-
Machinery	30 June 2018	152	86	-	-	66	-
Stormwater	30 June 2018	799	715	799	711	84	88
Roads and formation	30 June 2017	3,020	3,010	-	-	10	-
Operational							
Land and buildings	30 June 2018	2,170	1,391	1,116	787	779	329
Train stations	30 June 2017	273	273	-	-	-	-
Bus stations and shelters	30 June 2017	14	14	-	-	-	-
Marina structures	30 June 2017	36	30	-	-	6	-
Rolling stock	30 June 2018	4	-	-	-	4	-
Wharves	30 June 2018	96	70	-	-	26	-
Works of art	30 June 2018	45	19	26	-	26	26
Restricted							
Parks, reserves and buildings	30 June 2018	1,707	1,282	1,707	1,282	425	425
Total		**9,535**	**7,545**	**3,648**	**2,780**	**1,990**	**868**

Spark Arena (previously named Vector Arena)
Included within operational land and buildings is Spark Arena with a carrying value of $101 million (2017: $88 million). The Spark Arena provides Aucklanders with indoor sports and entertainment. It was constructed and is operated by Quay Park Arena Management Limited (QPAM) under a development agreement with the Group. The development agreement granted QPAM legal title to the building improvements which QPAM will revert to the Group on 1 August 2046.

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

Heritage assets
Some assets are designated as heritage assets because of their cultural, environmental or historical significance. The heritage assets of the Group and the council are classified to specific asset classes according to their nature and are subsequently measured as part of those asset classes. The Group and the council have identified the following heritage assets with a net book value of $426 million:

- heritage books valued at $150 million as at 30 June 2018; and
- 320 Group and council owned, built heritage sites identified within the Auckland Region valued at $276 million as at 30 June 2018.

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Restrictions
Various properties held by the Group and the council have restrictions on the use of proceeds generated from them including the sales proceeds. These proceeds may only be applied to the specified purposes, generally being to benefit the city of Auckland. Certain classes of property, plant and equipment where restrictions apply follow:

$million		Land and buildings	Parks, reserves and buildings	Total
Group				
	2018	397	25	**422**
	2017	325	23	348
Council				
	2018	201	25	**226**
	2017	187	23	210

Finance leases
Other operational assets include property, plant and equipment subject to finance leases, the value of which is $42 million for the Group (2017: $38 million) and $42 million for the council (2017: $38 million).

Security over property, plant and equipment
Other than property, plant and equipment subject to finance leases, no other property, plant and equipment is pledged as security for liabilities (2017: $nil) for the Group and the council.

Service concession assets
Refer to Glossary for definition of service concession arrangement and assets.

The Group's service concession assets are infrastructure assets owned by Watercare and operated by Veolia Water Services (ANZ) Pty Limited (Veolia) for the provision of water and wastewater services in the Papakura district.

The franchise agreement stipulates the services Veolia must provide, to whom it must provide them and regulates the price. Veolia is responsible for upgrading and maintaining the entire network in Papakura so that at the end of the contract period (initial term of 30 years ending on 30 June 2027 with a 20-year right of renewal), the network shall be in a better overall condition than that which existed at the time the contract was commenced in 1997. The Group retains ownership of the assets and the assets will be returned for use by the Group after the contract expires.

Service concession asset upgrades by Veolia are recognised by the Group as an asset with a corresponding liability. This liability is amortised over the remaining period of the service concession arrangement. The carrying value of the service concession asset was $186 million at 30 June 2018 (2017: $161 million).

No new service concession arrangements were entered into by the Group and council in 2018 (2017: none).

Section B: Long-term assets

B1 Property, plant and equipment (continued)

Local government disclosures

Core assets

Under the Local Government (Financial Reporting and Prudence) Regulations 2014, the council is required to disclose information about the Group's core assets.

Included within the infrastructure assets are the following core assets:

$million	Water supply treatment plants and facilities	Water supply other assets	Sewerage treatment plants and facilities	Sewerage other assets	Storm water drainage	Flood protection and control works	Roads and footpaths
2018							
Assets constructed	33	82	108	78	101	9	198
Assets transferred	-	10	1	19	62	1	21
Closing book value	942	3,017	1,113	3,914	4,500	4	9,922
Estimated replacement cost	1,626	5,240	1,694	7,081	5,948	101	14,620
2017							
Assets constructed	28	57	86	102	74	9	429
Assets transferred	-	22	6	35	62	2	18
Closing book value	877	2,683	942	3,391	4,229	61	9,682
Estimated replacement cost	1,435	4,725	1,427	6,276	5,579	91	14,331

Insurance of assets

Under the LGA 2002, the council is required to disclose the following information on insurance of the Group's assets as at 30 June 2018:

$million	Book value	Insured value	Replacement value of self-insured assets	Commentary
Roads and formation	10,306	-	14,620	Uninsured. However, subject to meeting defined criteria, the cost associated with the immediate response, reopening and/or restoration of these assets as a result of a short natural event such as earthquake, tsunami, could be subsidised by the New Zealand Transport Agency.
Water & wastewater & machinery	9,391	17,020	-	Above ground infrastructure includes water supply and pump stations, waste water pump stations and mobile plant and equipment to a value of $4.1b with a maximum coverage of $1 billion per event reducing to $450 million per event for fire. Below ground infrastructure, currently central government funds 60% of the cost of replacing wastewater and water supply networks damaged in a natural disaster. The Group obtained insurance cover up to $1.5 billion per event and in aggregate.
Stormwater	4,600	5,154	-	Below ground infrastructure includes storm water. For below ground infrastructure, central government funds 60% of the cost of replacing storm water networks damaged in a natural disaster. The Group has a maximum coverage of $1.5 billion per event and in the aggregate in the period of insurance.
Buildings, wharves, other above-ground structures and other operational assets	6,305	12,822	-	For any natural disaster, the Group has a maximum coverage of $1 billion per event and in the aggregate in the period of insurance, reducing to $450 million per event for fire.
Rolling stock	435	520	-	Insurance is for the entire network and includes the electric trains. The Group has a maximum coverage of $100 million per event.
Land	15,601	-	15,601	All land (including restricted land) held by the Group and the council is not insured due to low risk of loss.
Total	**46,638**	**35,516**	**30,221**	

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

Section B: Long-term assets

B2 Intangible assets

Accounting policy

Initial recognition and subsequent measurement

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

Useful lives

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

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

Intangible assets with indefinite useful lives are assessed annually for impairment.

Disposals

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

	Opening balance			Current year	Closing balance		
Group 2018 $million	**Cost**	**Accumulated depreciation and impairment**	**Carrying amount**	**Current year movements***	**Cost**	**Accumulated depreciation and impairment**	**Carrying amount**
Computer software	656	(332)	324	7	737	(406)	331
Rights to acquire	10	-	10	-	10	-	10
Intellectual property	78	(49)	29	3	88	(56)	32
Other	90	(19)	71	17	113	(25)	88
Work in progress	77	-	77	25	102	-	102
Total Group	**911**	**(400)**	**511**	**52**	**1,050**	**(487)**	**563**
Group 2017 $million							
Computer software	562	(264)	298	26	656	(332)	324
Rights to acquire	11	-	11	(1)	10	-	10
Intellectual property	65	(41)	24	5	78	(49)	29
Other	87	(17)	70	1	90	(19)	71
Work in progress	75	-	75	2	77	-	77
Total Group	**800**	**(322)**	**478**	**33**	**911**	**(400)**	**511**

*Refer to next page for further details.

Section B: Long-term assets

B2 Intangible assets (continued)

Group 2018 $million	Transfers from work in progress	Internally developed	Acquisition	Amortisation (Note A4)	Impairment loss charged to surplus or deficit/write-offs	Disposals	Transfers*	Total
	Current year movements							
Computer software	87	-	-	(78)	-	(2)	-	**7**
Rights to acquire	-	-	-	-	-	-	-	**-**
Intellectual property	10	-	-	(7)	-	-	-	**3**
Other	5	-	-	(4)	-	-	16	**17**
Work in progress	(102)	50	77	-	-	-	-	**25**
Total Group	**-**	**50**	**77**	**(89)**	**-**	**(2)**	**16**	**52**
Group 2017 $million								
Computer software	107	-	-	(77)	-	(3)	(1)	**26**
Rights to acquire	-	-	-	-	-	-	(1)	**(1)**
Intellectual property	12	-	-	(8)	-	-	1	**5**
Other	3	-	-	(3)	-	-	1	**1**
Work in progress	(122)	28	96	-	-	-	-	**2**
Total Group	**-**	**28**	**96**	**(88)**	**-**	**(3)**	**-**	**33**

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

Council 2018 $million	Opening balance			Current year	Closing balance		
	Cost	Accumulated depreciation and impairment	Carrying amount	Current year movements*	Cost	Accumulated depreciation and impairment	Carrying amount
Computer software	422	(204)	218	(7)	457	(246)	211
Rights to acquire	10	-	10	-	10	-	10
Intellectual property	72	(47)	25	3	82	(54)	28
Other	17	(8)	9	5	25	(11)	14
Work in progress	35	-	35	6	41	-	41
Total council	**556**	**(259)**	**297**	**7**	**615**	**(311)**	**304**
Council 2017 $million							
Computer software	362	(159)	203	15	422	(204)	218
Rights to acquire	11	-	11	(1)	10	-	10
Intellectual property	60	(40)	20	5	72	(47)	25
Other	16	(6)	10	(1)	17	(8)	9
Work in progress	43	-	43	(8)	35	-	35
Total council	**492**	**(205)**	**287**	**10**	**556**	**(259)**	**297**

*Refer to next page for further details.

Section B: Long-term assets

B2 Intangible assets (continued)

Council 2018 $million	Transfers from work in progress	Internally developed	Acquisition	Amortisation (Note A4)	Impairment loss charged to surplus or deficit/write-offs	Disposals	Transfers*	Total
	Current year movements							
Computer software	38	-	-	(44)	-	(1)	-	**(7)**
Rights to acquire	-	-	-	-	-	-	-	**-**
Intellectual property	10	-	-	(7)	-	-	-	**3**
Other	2	-	-	(2)	-	-	5	**5**
Work in progress	(50)	-	56	-	-	-	-	**6**
Total council	**-**	**-**	**56**	**(53)**	**-**	**(1)**	**5**	**7**
Council 2017 $million								
Computer software	64	-	-	(47)	-	(2)	-	**15**
Rights to acquire	-	-	-	-	-	-	(1)	**(1)**
Intellectual property	12	-	-	(7)	-	-	-	**5**
Other	-	-	-	(1)	-	-	-	**(1)**
Work in progress	(76)	28	40	-	-	-	-	**(8)**
Total council	**-**	**28**	**40**	**(55)**	**-**	**(2)**	**(1)**	**10**

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

Intellectual property

Integrated catchment data and network models are intellectual property that provides local information about the stormwater network performance to identify any problems in relation to capacity and interaction with the environment. The models are used for long-term management of the network.

Other intangible assets

Other intangible assets of the Group include the following:

- A right to occupy of $41 million as at 30 June 2018 (2017: $32 million) has been recognised at its fair value on acquisition and is being amortised over the period of the underlying lease. $28 million is for the land at each of the railway station sites along the Auckland passenger rail network. The right to occupy in the underlying lease period of 63 years is due to expire in 2073. $13 million is for additional access to the railway network. The right to occupy in the underlying lease period of 85 years is due to expire in 2099.
- Resource consents of $30 million as at 30 June 2018 (2017: $29 million) which are essential to long-term programme of future capital works are being amortised over the period of 1 to 38 years (2017: 1 to 38 years).

Restrictions to title and security over intangible assets

There are no restrictions over the title of intangible assets of the Group and council, nor are any intangible assets pledged as security for liabilities (2017: $nil).

Work in progress

Intangible assets under construction are detailed below:

$million	Group 2018	Group 2017	Council 2018	Council 2017
Computer software	58	69	15	27
Intellectual property	44	8	26	8
Total	**102**	**77**	**41**	**35**

Section B: Long-term assets

B3 Investment property

Accounting policy

Investment property includes land, commercial buildings and water space licences held to generate income. Investment property is initially recognised at cost and subsequently measured at fair value. Valuations are undertaken, annually by independent registered valuers with appropriate recognised professional qualifications and recent experience in Auckland and in investment properties. Gains or losses arising from fair value changes are included in surplus or deficit. Investment properties are valued individually and not depreciated.

Investment property	Valuation method and assumptions used
Land	Independent valuer: CBRE Limited, Colliers International New Zealand, Darroch Limited, NAI Harcourts NZ, Quotable Value Limited and Seagar & Partners Limited. • Individually considered and valued in accordance with current market-based evidence • Valued as vacant under freehold or leasehold tenure • Valuations consider the size, contour, quality, location, zoning, designation, and current and potential use
Commercial property	Independent valuer: CBRE Limited, Darroch Limited, NAI Harcourts NZ, Quotable Value Limited and Seagar & Partners Limited. • Based on indicative yields derived from current prices of comparable property in an active market.
Water space licence	Independent valuer: Seagar & Partners Limited. • Uses the discounted cash flow method based on yields of 6% (2017: 6%) considering the future rental revenue from existing and anticipated new tenants, and any residual value of the Group's interest in the investment.

The movement in investment property is as follows:

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Opening balance	735	681	162	121
Net increase in fair value of investment property	24	61	9	15
Additions from acquisition	11	53	19	29
Disposals	-	(5)	-	-
Net transfers to property, plant and equipment	(9)	(55)	(57)	(3)
Closing balance	**761**	**735**	**133**	**162**

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

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Rental income	30	28	7	7
Expenses	6	5	2	1

The Group and the council have no investment property pledged as security for liabilities during the year (2017: $nil).

Section C: Borrowings and financial instruments

This section provides details of the Group and council's borrowings - a major source of funding used to deliver services to the people of Auckland. It also includes information about the Group's financial instruments that are used to manage the risks associated with borrowings.

The notes included in this section are as follows:

C1 Borrowings

C2 Derivative financial instruments

C3 Other financial assets

C4 Fair value and classification of financial instruments

Section C: Borrowings and financial instruments

C1 Borrowings

Accounting policy

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

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

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Current				
Secured borrowings	764	975	764	975
Unsecured borrowings	141	150	-	-
Total current borrowings	**905**	**1,125**	**764**	**975**
Non-current				
Secured borrowings	7,549	6,729	7,549	6,729
Unsecured borrowings	378	446	-	-
Total non-current borrowings	**7,927**	**7,175**	**7,549**	**6,729**
Total borrowings	**8,832**	**8,300**	**8,313**	**7,704**
Fixed/floating rate split				
Fixed rate borrowings	2,540	2,655	2,245	2,530
Floating rate borrowings	6,292	5,645	6,068	5,174
Total borrowings	**8,832**	**8,300**	**8,313**	**7,704**

Borrowings occur through domestic retail and wholesale debt issuance, LGFA, and via foreign debt markets. The foreign denominated debt of the Group and the council of $3,854 million New Zealand dollars as at 30 June 2018 (2017: $2,661 million) is hedged to mitigate foreign exchange risk. Refer to Note E1 for further information.

External borrowings of POAL and Watercare are included in unsecured borrowings.

The council, through its Treasury department operates a centralised treasury service for the council and its CCOs except POAL and Watercare. Subsequent to year end, a Service Level Agreement was signed by council and Watercare for council to provide treasury services to Watercare with effect from 1 July 2018.

Green bonds
Secured borrowings include $200 million of green bonds issued in June 2018. The bonds are 5-year unsubordinated fixed rate bonds. The proceeds will be used to fund electric trains and equipment in accordance with the council's Green Bond Framework.

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

Entities within the Group may borrow under negative pledge arrangements, being arrangements, which do not permit these entities to grant security interest over their assets. Financial ratios are set as requirements in these arrangements which were in place for both 2017 and 2018.

Default or breach of covenants
There were no defaults or breaches by the Group and the council on any borrowing arrangement during the year (2017: nil).

Interest rates
The weighted average cost of funds for the Group's borrowings including interest rate hedging instruments as at 30 June 2018, is 5.3% (2017: 5.3%). Refer to notes A5 and E2 for the net finance costs during the period and the interest rate risk analysis, respectively.

Section C: Borrowings and financial instruments

C1 Borrowings (continued)

Continuous disclosure

Included in secured borrowings are retail bonds that have been issued on the New Zealand Stock Exchange (NZX). The NZX listing rules requires the Group and the council to meet the continuous disclosure requirements and to ensure compliance with the FMCA 2013.

The Group and the council have a continuous disclosure policy to ensure compliance with the NZX listing rules and FMCA 2013. A continuous disclosure committee comprising the Chief Executive, Group Chief Financial Officer, General Manager Corporate Finance and Property, General Counsel, Treasurer and Head of Risk ensure compliance with this policy. This committee maintains the disclosure register which is used to record any disclosures made by the council and the CCOs that may be material for the purposes of reporting to the NZX.

Local government disclosures

Internal borrowings

In relation to each group of activities, the council has incurred no internal borrowings during the financial year to 30 June 2018. The Group and the council maintain sufficient cash balances at all times.

Credit ratings

Auckland Council has a Standard & Poor's credit rating of AA (Stable outlook) and Moody's credit rating of Aa2 (Stable outlook). The Standard & Poor's rating was reaffirmed in September 2018 and the Moody's rating in October 2017.

C2 Derivative financial instruments

Accounting policy

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

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

Derivative assets and derivative liabilities are classified as current when the remaining maturity is 12 months or less, or as non-current when the remaining maturity is more than 12 months.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised directly in other comprehensive revenue and expenditure. The gain or loss relating to the ineffective portion is recognised immediately in 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.

Section C: Borrowings and financial instruments

C2 Derivative financial instruments (continued)

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

The derivatives of the Group and council are all under level 2 of the fair value hierarchy (see Note C4). The fair values of level 2 derivatives are determined using discounted cash flows valuation technique based on the terms and valuation inputs from independently sourced market parameters summarised below:

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

	2018				2017			
	Assets		Liabilities		Assets		Liabilities	
Group $million	Notional[1]	Fair value	Notional[1]	Fair value	Notional[1]	Fair value	Notional[1]	Fair value
Current								
Interest rate swaps								
- cash flow hedge	-	-	40	1	-	-	15	-
- fair value through surplus or deficit	300	2	300	4	-	-	70	1
Forward foreign currency contract								
- cash flow hedge	38	4	15	-	10	-	52	5
- fair value through surplus or deficit	24	1	-	-	-	-	25	1
Forward rate agreements								
- fair value through surplus or deficit	-	-	-	-	-	-	672	-
Total current	**362**	**7**	**355**	**5**	**10**	**-**	**834**	**7**
Non-current								
Interest rate swaps								
- cash flow hedge	-	-	140	7	15	-	155	8
- fair value through surplus or deficit	2,075	37	8,539	892	2,275	53	8,634	750
Forward foreign currency contract								
- cash flow hedge	-	-	-	-	35	1	-	-
- fair value through surplus or deficit	-	-	113	2	-	-	-	-
Cross-currency interest rate swaps								
- fair value through surplus or deficit	2,708	242	992	56	1,629	110	1,176	104
Basis swaps								
- fair value through surplus or deficit	1,216	3	840	3	1,216	6	-	-
Interest rate options								
- fair value through surplus or deficit	-	-	50	3	-	-	50	3
Total non-current	**5,999**	**282**	**10,674**	**963**	**5,170**	**170**	**10,015**	**865**
Total derivative	**6,361**	**289**	**11,029**	**968**	**5,180**	**170**	**10,849**	**872**

	2018				2017			
	Assets		Liabilities		Assets		Liabilities	
Council $million	Notional[1]	Fair value	Notional[1]	Fair value	Notional[1]	Fair value	Notional[1]	Fair value
Current								
Interest rate swaps								
- fair value through surplus or deficit	175	1	215	3	-	-	45	1
Forward foreign currency contract								
- fair value through surplus or deficit	24	1	-	-	1	-	25	1
Forward rate agreements								
- fair value through surplus or deficit	-	-	-	-	-	-	672	-
Total current	**199**	**2**	**215**	**3**	**1**	**-**	**742**	**2**

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

Section C: Borrowings and financial instruments

C2 Derivative financial instruments (continued)

Council $million	2018 Assets Notional[1]	2018 Assets Fair value	2018 Liabilities Notional[1]	2018 Liabilities Fair value	2017 Assets Notional[1]	2017 Assets Fair value	2017 Liabilities Notional[1]	2017 Liabilities Fair value
Non-current								
Interest rate swaps								
- fair value through surplus or deficit	1,975	30	7,024	672	2,070	45	7,044	549
Forward foreign currency contract								
- fair value through surplus or deficit	113	2	113	2	-	-	-	-
Cross-currency interest rate swaps								
- fair value through surplus or deficit	2,708	242	992	56	1,629	110	1,176	104
Basis swaps								
- fair value through surplus or deficit	1,216	4	840	3	1,216	6	-	-
Total non-current	**6,012**	**278**	**8,969**	**733**	**4,915**	**161**	**8,220**	**653**
Total derivative	**6,211**	**280**	**9,184**	**736**	**4,916**	**161**	**8,962**	**655**

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

C3 Other financial assets

Accounting policy

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

Other financial assets of the Group and the council include unit trusts, loans to related parties, credit support annex, bonds, borrower notes, community loans and listed and unlisted shares.

The accounting policies on classification of these financial assets for the purpose of measurement are outlined in Note C4.

$million	Group 2018	Group 2017	Council 2018	Council 2017
Current				
Unit trusts	-	217	-	217
Short-term deposits	129	17	126	16
Loans to related parties	-	-	8	87
Borrowers notes	6	5	6	5
Listed shares	-	19	-	19
Other	16	18	16	17
Total current	**151**	**276**	**156**	**361**
Non-current				
Loans to related parties	4	3	1,967	1,724
Borrowers notes	28	33	28	33
Listed shares	43	36	-	-
Other	46	69	34	57
Total non-current	**121**	**141**	**2,029**	**1,814**
Total other financial assets	**272**	**417**	**2,185**	**2,175**

Loans to related parties

Loans to related parties are interest bearing at market rates. Interest rates for the year ended 30 June 2018 range from 2.1% to 6.6% (2017: 2.4% to 6.6%). Read Note A2 for details of other financial contributions provided by council.

Section C: Borrowings and financial instruments

C3 Other financial assets (continued)

Listed shares
The Group has $43 million (2017: $36 million) of listed shares classified as non-current which are designated as available-for-sale financial assets.

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

Other
Significant items included within Other are as follows:

Bonds
The council sold its portfolio of bond assets during the year (2017: $18 million).

Credit Support Annex (CSA)
The Group and the council are exposed to counterparty credit risk through its derivative contracts. This risk is mitigated by entering into CSAs with counterparties that collateralise derivative exposures. The Group and the council have transactions covered by CSAs with the following counterparties: Citibank and the Hong Kong and Shanghai Banking Corporation (HSBC). As at 30 June 2018, the Group and the council had both an obligation for repayment of cash collateral received from Citibank (2018: a liability of $25 million, 2017: a liability of $23 million, refer to Note D3) and an amount receivable for cash collateral pledged to HSBC (2018: an asset of $10 million, 2017: an asset of $12 million).

Unlisted shares
The Group and the council have investment of $8 million (2017: $7 million) in LGFA and Civic Financial Services Limited. The fair values are determined by reference to the council's share of net asset backing in these companies as there is no market information on the value of the organisations' shares.

C4 Fair value and classification of financial instruments

Accounting policy

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

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

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

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

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

Section C: Borrowings and financial instruments

C4 Fair value and classification of financial instruments (continued)

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

		Group		Council	
$million	**Level**	**2018**	**2017**	**2018**	**2017**
Financial assets through surplus or deficit					
Unit trusts	1	-	217	-	217
Listed shares	1	-	19	-	19
Available for sale financial assets					
Listed shares	1	43	36	-	-
Other financial assets	1	11	10	-	-
Unlisted shares	3	8	7	8	7
Derivative assets	2	289	170	280	161
Total financial assets		**351**	**459**	**288**	**404**
Derivative liabilities	2	968	872	736	655
Total financial liabilities		**968**	**872**	**736**	**655**

There were no transfers between the different levels of the fair value hierarchy during the year (2017: $nil).

Accounting policy

For the purpose of measurement, the Group and the council's financial assets and liabilities are classified into categories. The classification depends on the purpose for which the financial assets and liabilities are held. Management determines the classification of financial assets and liabilities and recognises these at fair value at initial recognition. Subsequent measurement and the treatment of gains and losses are presented below:

Categories	Subsequent measurement	Treatment of gains and losses
Fair value through surplus or deficit	Fair value	Surplus or deficit
Loans and receivables	Amortised cost less provision for impairment	Surplus or deficit
Available for sale financial assets	Fair value	Other comprehensive revenue and expenditure
Financial liabilities at amortised cost	Amortised cost	Surplus or deficit
Held to maturity financial assets	Amortised cost less provision for impairment	Surplus or deficit

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

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

Section C: Borrowings and financial instruments

C4 Fair value and classification of financial instruments (continued)

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

	Group				Council			
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
$million	**2018**	**2018**	**2017**	**2017**	**2018**	**2018**	**2017**	**2017**
Assets								
Financial assets through surplus or deficit								
Unit trusts	-	-	217	217	-	-	217	217
Listed shares	-	-	19	19	-	-	19	19
Derivative assets	285	285	168	168	280	280	161	161
Total	**285**	**285**	**404**	**404**	**280**	**280**	**397**	**397**
Available for sale financial assets								
Listed shares	43	43	36	36	-	-	-	-
Unlisted shares	8	8	7	7	8	8	7	7
Other financial assets	11	11	10	10	-	-	-	-
Total	**62**	**62**	**53**	**53**	**8**	**8**	**7**	**7**
Loans and receivables								
Cash and cash equivalents	618	619	337	337	584	585	279	279
Receivables (excluding GST receivables and prepayments)	362	362	331	331	212	212	256	256
Loans to related parties	4	4	3	3	1,975	2,078	1,811	1,881
Other financial assets	206	211	107	111	202	207	104	108
Total	**1,190**	**1,196**	**778**	**782**	**2,973**	**3,082**	**2,450**	**2,524**
Held to maturity financial assets								
Bonds (under "Other financial assets")	-	-	18	18	-	-	18	18
Derivative in hedge relationships								
Derivative assets	4	4	2	2	-	-	-	-
Total assets	**1,541**	**1,547**	**1,255**	**1,259**	**3,261**	**3,370**	**2,872**	**2,946**
Liabilities								
Financial liabilities through surplus or deficit								
Derivative liabilities	960	960	859	859	736	736	655	655
Financial liabilities at amortised cost								
Bank overdraft	8	8	6	6	-	-	-	-
Borrowings	8,832	9,139	8,300	8,589	8,313	8,617	7,704	7,987
Payables and accruals (excluding income received in advance)	650	650	656	656	604	604	653	653
Financial guarantees	41	41	42	42	41	41	42	42
Total	**9,531**	**9,838**	**9,004**	**9,293**	**8,958**	**9,262**	**8,399**	**8,682**
Derivative in hedge relationships								
Derivative liabilities	8	8	13	13	-	-	-	-
Total liabilities	**10,499**	**10,806**	**9,876**	**10,165**	**9,694**	**9,998**	**9,054**	**9,337**

Section D: Working capital and equity

This section provides information about the operating assets and liabilities available to the Group and the council's day-to-day activities. This section also contains analysis of the net assets of the Group and the council, accumulated funds and restricted reserves.

The notes included in the following section are as follows:

D1 Cash and cash equivalents

D2 Receivables and prepayments

D3 Payables and accruals

D4 Employee entitlements

D5 Provisions

D6 Ratepayer equity

Section D: Working capital and equity

D1 Cash and cash equivalents

Accounting policy

Cash and cash equivalents are made up of cash on hand, on-demand deposits and other short-term highly liquid investments, net of bank overdraft classified under current liabilities. The carrying value of cash at bank and short-term deposits with original maturities less than three months approximates their fair value.

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Short-term deposits	510	260	510	254
Cash on hand and on-demand bank deposits	108	77	74	25
Cash and cash equivalents	618	**337**	584	**279**
Bank overdraft	(8)	(6)	-	-
Net cash and cash equivalents	**610**	**331**	**584**	**279**

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

$million	**2018**	**2017**
Group	26	31
Council	17	-

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

D2 Receivables and prepayments

Accounting policy

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

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Current				
Trade receivables	239	211	100	95
Less provision for impairment	(37)	(34)	(18)	(18)
Rates receivables	54	55	54	56
Related party receivables	-	-	63	106
Net receivables	**256**	**232**	**199**	**239**
Accrued income	96	87	8	10
GST receivable	6	5	14	19
Insurance recoveries	1	3	-	3
Prepayments	18	15	11	8
Other	2	3	1	-
Total current	**379**	**345**	**233**	**279**
Receivables from exchange transactions	196	166	91	92
Receivables from non-exchange transactions	183	179	142	187
Non-current				
Rates	4	3	4	3
Insurance recoveries	-	1	-	1
Prepayments	3	3	-	-
Other	3	2	-	-
Total non-current	**10**	**9**	**4**	**4**
Receivables from exchange transactions	6	6	-	1
Receivables from non-exchange transactions	4	3	4	3
Total receivables and prepayments	**389**	**354**	**237**	**283**

Section D: Working capital and equity

D2 Receivables and prepayments (continued)

Most receivables are non-interest bearing and the carrying value approximates fair value. Ratepayers may apply for payment plan options in special circumstances, which defers the balance to non-current where applicable.

Provision for impairment of receivables

Accounting policy

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

The carrying amount of receivables that would otherwise be past due or impaired and whose terms have been renegotiated are $8.6 million (2017: $12.0 million) for the Group and the council.

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

The ageing profile of net receivables is as follows:

		2018			2017	
$million	**Gross**	**Impaired**	**Net**	**Gross**	**Impaired**	**Net**
Group						
Not past due	79	-	79	88	-	88
Past due 1 to 60 days	74	-	74	86	-	86
Past due >60 days	140	(37)	103	92	(34)	58
Total	**293**	**(37)**	**256**	**266**	**(34)**	**232**
Council						
Not past due	77	-	77	136	-	136
Past due 1 to 60 days	40	-	40	65	-	65
Past due >60 days	100	(18)	82	56	(18)	38
Total	**217**	**(18)**	**199**	**257**	**(18)**	**239**

See Note E3 for information on credit risk.

D3 Payables and accruals

Accounting policy

Current payables and accruals are recognised at cost. Current payables and accruals are non-interest bearing and normally settled on 30-day terms; therefore, the carrying value approximates fair value. Non-current payables and accruals are measured at the present value of the estimated future cash outflows.

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Current				
Trade payables and accruals	519	527	186	198
Revenue received in advance	54	42	25	20
Deposits and bonds	35	25	32	22
Credit support annex (refer to Note C3)	25	23	25	23
Amounts due to related parties	-	-	291	350
Other	55	71	64	60
Total current	**688**	**688**	**623**	**673**
Payables from exchange transactions	643	647	330	336
Payables from non-exchange transactions	45	41	293	337

Section D: Working capital and equity

D3 Payables and accruals (continued)

$million	Group 2018	Group 2017	Council 2018	Council 2017
Non-current				
Revenue received in advance	88	39	49	27
Other	16	10	6	-
Total non-current	**104**	**49**	**55**	**27**
Payables from exchange transactions	77	44	28	-
Payables from non-exchange transactions	27	5	27	27
Total payables and accruals	**792**	**737**	**678**	**700**

The council's non-current payables and accruals includes an obligation to give Watercare unrestricted and sole access to land on Puketutu Island until the earlier of 2066 or until such time that Watercare surrenders its lease over the island. The balance of the deferred revenue as at 30 June 2018 amounted to $21.3 million (2017: $21.7 million) and is amortised on a straight-line basis over the lease period of 70 years, being 55 years with a 15 year right of renewal. The lease period is longer than the resource consent period of 35 years as the land will be used beyond the consent period for aftercare.

D4 Employee entitlements

Accounting policy

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

$million	Group 2018	Group 2017	Council 2018	Council 2017
Current				
Short-term employee benefits	97	90	52	50
Other	3	5	2	2
Total current	**100**	**95**	**54**	**52**
Non-current				
Other	5	5	2	2
Total non-current	**5**	**5**	**2**	**2**
Total employee entitlements	**105**	**100**	**56**	**54**

D5 Provisions

Accounting policy

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

Discount rate

The present value of these cash flows is calculated using a discount rate equivalent to the appropriate risk-free rate relevant for the timing of cash flows, published by New Zealand Treasury as the government bond rate (2.0% to 5.0%). At 30 June 2018, the Group and the council determined that risk-free rates, appropriately represented the risks specifically related to time value of money (2017: 2.0% to 4.0%).

Section D: Working capital and equity

D5 Provisions (continued)

Group $million	Weather-tightness	Contaminated land and closed landfills	Financial guarantees	Other	Total
Opening balance	265	106	42	43	456
Additional provisions and increases to existing provisions	82	10	-	30	122
Amounts used	(34)	(5)	-	(11)	(50)
Reversal of previously recognised provisions	-	(3)	(1)	(5)	(9)
Change in discount rate	-	5	-	-	5
Discount unwind	6	2	-	-	8
Balance as at 30 June 2018	**319**	**115**	**41**	**57**	**532**
Current	80	8	-	39	127
Non-current	239	107	41	18	405
Opening balance	257	88	15	31	391
Additional provisions and increases to existing provisions	30	9	27	32	98
Amounts used	(53)	(5)	-	(8)	(66)
Reversal of previously recognised provisions	-	-	-	(11)	(11)
Change in discount rate	21	14	-	1	36
Discount unwind	10	-	-	(2)	8
Balance as at 30 June 2017	**265**	**106**	**42**	**43**	**456**
Current	44	8	-	30	82
Non-current	221	98	42	13	374

Council $million	Weather-tightness	Contaminated land and closed landfills	Financial guarantees	Other	Total
Opening balance	265	101	42	36	444
Additional provisions and increases to existing provisions	82	9	-	26	117
Amounts used	(34)	(4)	-	(9)	(47)
Reversal of previously recognised provisions	-	(3)	(1)	(5)	(9)
Change in discount rate	-	5	-	-	5
Discount unwind	6	2	-	-	8
Balance as at 30 June 2018	**319**	**110**	**41**	**48**	**518**
Current	80	8	-	32	120
Non-current	239	102	41	16	398
Opening balance	257	84	15	28	384
Additional provisions and increases to existing provisions	30	7	27	27	91
Amounts used	(53)	(4)	-	(7)	(64)
Reversal of previously recognised provisions	-	-	-	(11)	(11)
Change in discount rate	21	14	-	1	36
Discount unwind	10	-	-	(2)	8
Balance as at 30 June 2017	**265**	**101**	**42**	**36**	**444**
Current	44	8	-	25	77
Non-current	221	93	42	11	367

Provision for weathertightness claims

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

$million	Multi-unit buildings	Single buildings	Total
Active provision	201	4	205
Reported provision	20	14	34
Unreported provision	61	19	80
Balance as at 30 June 2018	**282**	**37**	**319**
Active provision	161	4	165
Reported provision	17	14	31
Unreported provision	59	10	69
Balance as at 30 June 2017	**237**	**28**	**265**

Section D: Working capital and equity

D5 Provisions (continued)

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

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

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

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

Reported claims
- There are 564 dwellings that are currently reported (434 multi and 130 single) with a discontinuance rate then applied (10% multi and 30% single)

Unreported claims
- Prevalence rates indicate there is an estimated 835 dwellings (747 multi and 88 single) that will notify in the future with a discontinuance rate then applied (10% multi and 30% single)

Reported and Unreported claims
- The assessed quantum for repair which differs between multi and single
- Assumed settlement of the assessed quantum is 55% for a multi and 60% for a single
- Contribution by the council toward the settlement is 74% for multi and 75% for a single
- Timing of claim payments which is assumed to follow historical trends

Active claims
The active provision is determined through a combination of case estimates and the relevant cost assumptions used to produce the reported provision. The key assumption that is applied to these case estimates is a certainty weighting, ranging from 10% to 75% depending on the stage of the claim.

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

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

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	**Total**
$million	80	140	23	20	14	13	13	9	5	2	**319**

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

	2018		**2017**	
	10%	**-10%**	**10%**	**-10%**
$million	**Effect on surplus or deficit**		**Effect on surplus or deficit**	
Amount claimed	(32)	32	(26)	26
Council contribution to settlement	(32)	32	(26)	26
Settlement level award	(32)	32	(26)	26
Discontinuance rate	13	(12)	12	(12)

Provision for remediation of contaminated land and closed landfills
The Group and the council have provided for the remediation of sites where contamination has actually been identified and the existing land-use requires remediation. No provision has been made for sites where contamination is not confirmed. This is on the basis that the level of contamination, if any, is unknown and costs cannot be reliably estimated.

Due to the significant degree of estimation included, the Group and the council may be subject to further liability that is considered as unquantifiable contingencies (refer to Note F4).

Section D: Working capital and equity

D5 Provisions (continued)

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

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

Financial guarantees

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

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

Other provisions

Leave entitlement

Included within other provisions is a provision for leave entitlements of $12 million (2017: $18 million) for the Group and $11 million (2017: $16 million) for the council. This provision arose from leave entitlement calculation issues under the Holidays Act 2003 and represents management's best estimate of outstanding remediation payments to current and former staff. The provision contains an element of uncertainty around the anticipated rate of success in tracing former staff, and judgment has been applied in estimating this rate.

Legal claims

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

D6 Ratepayer equity

Accounting policy

Ratepayer equity is the Auckland community's interest in the Group and the council. Ratepayer equity has been classified into various components to identify those portions of equity held for specific purposes. Contributed equity is the net asset and liability position excluding restricted reserves, at the time the council was formed.

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Contributed equity	**26,732**	**26,728**	**26,569**	**26,569**
Accumulated funds	**1,667**	**951**	**(997)**	**(824)**
Reserves				
Asset revaluation reserves				
Opening balance	7,545	6,103	2,780	2,787
Transferred from/(to) accumulated funds	(96)	(26)	(68)	(7)
Change in fair value recognised during the year	2,086	1,468	936	-
Closing balance	9,535	7,545	3,648	2,780

Section D: Working capital and equity

D6 Ratepayer equity (continued)

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Reserves				
Restricted equity and targeted rates				
Opening balance	76	71	72	67
Transfer in/(out) during the year	40	5	39	5
Closing balance	116	76	111	72
Share of associates' reserves				
Opening balance	453	451	-	-
Change in fair value recognised during the year	264	2	-	-
Closing balance	717	453	-	-
Available for sale investment revaluation reserve				
Opening balance	23	12	-	-
Change in fair value recognised during the year	7	11	-	-
Closing balance	30	23	-	-
Cash flow hedge reserve				
Opening balance	-	(3)	-	-
Change in fair value recognised during the year	5	3	-	-
Closing balance	5	-	-	-
Total reserves	**10,403**	**8,097**	**3,759**	**2,852**
Total ratepayer equity	**38,802**	**35,776**	**29,331**	**28,597**

Capital management

For the purpose of the Group and the council's capital management, the Group and the council's capital is its ratepayer equity, which comprises contributed equity, reserves and accumulated funds. Equity is represented by net assets. The Local Government Act 2002 (the Act) requires the council to manage the Group's revenue, expenses, assets, liabilities and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Ratepayer equity is largely managed as a by-product of managing revenue, expenses, assets, liabilities and general financial dealings.

In addition, the Local Government (Financial Reporting and Prudence) Regulations 2014 sets out a number of benchmarks for assessing whether the council is managing the Group's revenue, expenses, assets and liabilities prudently. Refer to Section G for the financial reporting and prudence benchmarks of the Group for the year ended 30 June 2018.

The objective of managing the Group and the council's capital is to achieve intergenerational equity, which is a principle promoted in the Act and applied by the Group and the council. Intergenerational equity requires today's ratepayers to meet the cost of using the Group and council's assets and not expecting them to meet the full cost of long-term assets that will benefit ratepayers in future generations.

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

An additional objective of capital management is to ensure that the expenditure needs to be identified in the Long-term Plan 2018-2028 (LTP) and Annual Budget are met in the manner set out in these plans. The Act requires the council to make adequate and effective provision in the LTP and Annual Budget to meet the expenditure needs identified in those plans. The Act sets out factors that the council is required to consider when determining the most appropriate sources of funding for each of the Group and the council's activities.

The sources and levels of funding are set out in the funding and financial policies of the LTP. The Group and the council monitor actual expenditure incurred against the LTP and Annual Budget.

No changes were made in the objectives, policies or processes for managing capital of the Group and the council during the years ended 30 June 2018 and 30 June 2017.

Section D: Working capital and equity

D6 Ratepayer equity (continued)

Local government disclosures (continued)

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

$million	Activity	Opening balance	Transfers to reserve	Transfers from reserve	Closing balance	Purpose
Trusts and bequests						
Leys Institute Trust Capital	Local community services	1	-	-	1	Libraries equipment and operation
Trusts related to art activities	Regional community services	1	-	-	1	Purchase of works of art for the Auckland Art Gallery
Total trusts and bequests		**2**	**-**	**-**	**2**	
Reserves and targeted rates						
Araparera Forest Reserve	Roads and footpaths	3	-	-	3	Roading development in the Rodney area
Central City Targeted Rate	Local planning and development	30	21	(10)	41	Development and revitalisation of the city centre
Community Recreation and Sport Fund	Local parks, sports and recreation	3	-	-	3	Sport and recreational group initiatives
Financial Assistance Targeted Rates	Roads and footpaths, stormwater and wastewater	(1)	-	-	(1)	Financial assistance to the local community
Greenmount Park Development Reserve - ARC	Local parks, sports and recreation	3	-	-	3	Conversion of land into a public park and recreation ground
Greenmount Park Development Reserve - AC	Local parks, sports and recreation	9	-	-	9	Development of the Styak-Lushington Park
Harbourview / Orangihina UAC reserve	Local parks, sports and recreation	1	-	-	1	Develop the Harbourview-Orangihina Park
Hobsonville Domain Compensation Reserve	Local parks, sports and recreation	2	-	-	2	Hobsonville Domain Replacement project
Manukau Harbour Related Recreational Facilities	Local parks, sports and recreation	2	-	-	2	Improvement of costal recreation opportunities
North Shore Holdings Reserve Fund	Regional parks, sports and recreation and local planning and development	3	-	-	3	Projects approved by Auckland Transition Agency and the legacy North Shore City Council
Off Street Parking Funds	Parking and enforcement	10	-	-	10	Off- street parking initiatives
Panuku Development Auckland maintenance reserve	Waterfront development	1	1	-	2	Contributions towards cost of maintenance on properties
Papakura Golf Course Reserve	Regional parks, sports and recreation	2	-	-	2	Development of Papakura Golf course
Queen Elizabeth II Square reserve	Local planning and development	-	26	-	26	Development and revitalisation of the city centre
Targeted Rates Open Spaces/Volcanic Cones	Regional parks, sports and recreation	2	1	-	3	Purchase of open spaces and maintenance and enhancement of volcanic cones
Waste Minimisation Reserve	Solid waste and environmental services	3	1	(1)	3	Ministry for the Environment levies for waste minimisation initiatives
World Masters Games reserve	Economic Growth and Visitor Economy	-	1	-	1	Promotion of amateur sports
Zoo Conservation Fund	Regional facilities	1	-	-	1	Supporting conservation efforts in the wild
Total reserves and targeted rates		**74**	**51**	**(11)**	**114**	
Total reserve funds		**76**	**51**	**(11)**	**116**	

Section E: Financial risk management

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

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

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

E1 Foreign exchange risk

E2 Interest rate risk

E3 Credit risk

E4 Liquidity risk

Section E: Financial risk management

E1 Foreign exchange risk

Risk exposure

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

The council has offshore borrowing programmes that are exposed to foreign exchange risk with foreign denominated borrowings of $3,854 million at 30 June 2018 (30 June 2017: $2,661 million). The percentage of foreign denominated borrowings for each currency is shown below:

	Australian Dollar	Swiss Franc	Euro	Norwegian Krone	Total
2018	21%	15%	53%	11%	100%
2017	25%	20%	40%	15%	100%

Refer to Note C1 for the total foreign currency denominated borrowings of the Group and the council.

Risk management

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

Risk measurement

At 30 June 2018, the Group and the council do not have remaining material exposure to foreign exchange risk since all foreign currency denominated borrowings and material purchases are hedged (2017: none).

E2 Interest rate risk

Risk exposure

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

Risk management

The council manages the interest rate risk of the Group apart from interest rate risk of Watercare and POAL which is managed internally by the entities.

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

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

As at 30 June 2018, the Group and the council have the following forward start swaps:

Group

$million	Financial year						
Effective start date	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Term							
2 years	10	-	-	-	-	-	-
5 years	-	150	15	50	50	205	-
7 years	275	150	200	300	450	200	50
9 years	-	-	-	70	-	-	-
10 years	40	100	50	40	-	-	-
Total	**325**	**400**	**265**	**460**	**500**	**405**	**50**
Average rate	4.07%	4.15%	3.87%	4.17%	3.60%	3.80%	3.94%

Section E: Financial risk management

E2 Interest rate risk (continued)

Council

$million				Financial year			
Effective start date	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Term							
5 years	-	150	-	50	50	205	-
7 years	275	150	200	300	450	200	50
10 years	-	100	50	-	-	-	-
Total	**275**	**400**	**250**	**350**	**500**	**405**	**50**
Average rate	3.92%	4.15%	3.76%	3.98%	3.60%	3.80%	3.94%

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

As at 30 June 2018, the Group has the following interest rate options:

$million	**2018**			**2017**		
Interest rate options	**Notional value**	**Cap rate**	**Floor rate**	**Notional value**	**Cap rate**	**Floor rate**
3 to 4 years	50	5.25%	4.35%	-	-	-
4 to 5 years	-	-	-	50	5.25%	4.35%

Risk measurement

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

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

	2018				**2017**			
	-100bps/-1%		**+100bps/+1%**		**-100bps/-1%**		**+100bps/+1%**	
$million	**Surplus/ (deficit)**	**Equity**	**Surplus/ (deficit)**	**Equity**	**Surplus/ (deficit)**	**Equity**	**Surplus/ (deficit)**	**Equity**
Group								
Cash and cash equivalents and term deposits	(6)	-	6	-	(3)	-	3	-
Derivative financial instruments[1]	(223)	(6)	202	5	(292)	(6)	254	6
Loans to related parties	-	-	-	-	-	-	-	-
Fixed rate borrowings (repricing within next 12 months)	4	-	(4)	-	5	-	(5)	-
Floating rate borrowings	25	-	(25)	-	30	-	(30)	-
Other financial assets	(2)	-	2	-	(1)	-	1	-
Total sensitivity to interest rate risk	**(202)**	**(6)**	**181**	**5**	**(261)**	**(6)**	**223**	**6**

	2018				**2017**			
	-100bps/-1%		**+100bps/+1%**		**-100bps/-1%**		**+100bps/+1%**	
$million	**Surplus/ (deficit)**	**Equity**	**Surplus/ (deficit)**	**Equity**	**Surplus/ (deficit)**	**Equity**	**Surplus/ (deficit)**	**Equity**
Council								
Cash and cash equivalents and term deposits	(6)	-	6	-	(3)	-	3	-
Derivative financial instruments[1]	(148)	-	133	-	(211)	-	179	-
Loans to related parties	(14)	-	14	-	(12)	-	12	-
Fixed rate borrowings (repricing within next 12 months)	4	-	(4)	-	5	-	(5)	-
Floating rate borrowings	22	-	(22)	-	25	-	(25)	-
Other financial assets	(2)	-	2	-	(1)	-	1	-
Total sensitivity to interest rate risk	**(144)**	**-**	**129**	**-**	**(197)**	**-**	**165**	**-**

[1] The sensitivity for derivatives (excluding basis swaps) has been calculated using a derivative valuation model based on a parallel shift in interest rates of plus and minus 100 bps.

Section E: Financial risk management

E2 Interest rate risk (continued)

The council enters into basis swaps to lower funding costs. The basis swaps have been used to partially hedge the basis risk on cross-currency interest rate swaps.

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

Basis swaps are sensitive to movements in the NZD/USD basis spread. The impact to the Group and the council of an increase in the basis spread of 10 points is a $14 million loss while a decrease in the basis spread of 10 points is a $14 million gain. The basis sensitivity on this basis spread was calculated by taking the spot basis spread curve and moving this by the reasonably possible movement of plus and minus 10 basis points.

E3 Credit risk

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

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

In addition to the above credit exposures, the Group and the council are exposed to financial guarantees issued to related parties and various other organisations. At 30 June 2018, total financial guarantees for the Group are $6.2 billion (2017: $5.5 billion) and $6.4 billion for the council (2017: $5.9 billion). Certain guarantees have been provided for as disclosed in the provisions note. Refer to Notes D5 and F4 for further information.

Risk management
The council manages the credit risk of the Group apart from credit risk of Watercare and POAL which is managed internally by the entities. Minimum credit rating limits are applied per counterparty to safeguard against loss through poor credit quality.

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

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

Concentration of credit risk
The Group and the council are not exposed to material concentrations of credit risk around rates and other receivables from non-exchange transactions as there is a large number of ratepayers and customers, and the council has a statutory right to recover outstanding funds under the Local Government (Rating) Act 2002. Refer to Note D2 for the breakdown and ageing profile of receivables.

The council identifies concentration risk in relation to loans to related parties based on the capital programme of the related parties driven by the LTP. Loans to Auckland Transport and Watercare amounted to $503 million and $1,471 million, respectively (2017: $509 million and $1,302 million, respectively).

Section E: Financial risk management

E3 Credit risk (continued)

Risk measurement

Rated counterparties
At balance date, $1.1 billion (2017: $591 million) of assets with credit risk held by the Group and $2.5 billion (2017: $1.8 billion) of assets with credit risk held by the council have a Standard & Poor's rating (or equivalent) of single A or better.

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

Unrated counterparties
With the exception of certain community loans, council cannot invest with unrated counterparties. In the year to 30 June 2018 the Group and the council have no community loan counterparties that defaulted (2017: nil).

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

E4 Liquidity risk

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

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

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

The Group and the council also use committed bank facilities and set-off arrangements to manage their liquidity risk. Overdraft facilities of $14 million (2017: $12 million) and undrawn bank facilities of $1.4 billion (2017: $1.5 billion) will mature between July 2018 and June 2033. The undrawn bank facilities include council's syndicated committed cash advance facilities of $1.0 billion (2017: $1.0 billion) which can be drawn at any time.

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

Section E: Financial risk management

E4 Liquidity risk (continued)

Group	2018							
$million	Carrying amount	On demand	<1 year	1-2 years	2-5 years	5-10 years	>10 years	Total contractual cash flows
Non-derivative financial assets								
Cash and cash equivalents	618	619	1	-	-	-	-	620
Receivables (excluding GST receivables and prepayments)	362	52	308	2	-	-	-	362
Other financial assets	271	46	153	8	30	27	23	287
Total non-derivative financial assets	**1,251**	**717**	**462**	**10**	**30**	**27**	**23**	**1,269**
Derivative financial assets								
Derivative financial assets net settled	42	-	20	14	9	6	4	53
Derivative financial assets gross settled[1]	247	-	(43)	(52)	(203)	(14)	(33)	(345)
Inflows		-	106	40	119	2,732	359	3,356
Outflows		-	(149)	(92)	(322)	(2,746)	(392)	(3,701)
Total derivative financial assets	**289**	-	**(23)**	**(38)**	**(194)**	**(8)**	**(29)**	**(292)**
Total financial assets	**1,540**	**717**	**439**	**(28)**	**(164)**	**19**	**(6)**	**977**
Non-derivative financial liabilities								
Bank overdraft	8	7	1	-	-	-	-	8
Payables and accruals (excluding income received in advance)	650	65	586	2	-	-	-	653
Secured borrowings[2]	8,313	-	993	1,077	2,325	4,420	881	9,696
Unsecured borrowings	519	-	159	68	182	101	133	643
Financial guarantees[3]	41	6,220	-	-	-	-	-	6,220
Total non-derivative financial liabilities	**9,531**	**6,292**	**1,739**	**1,147**	**2,507**	**4,521**	**1,014**	**17,220**
Derivative financial liabilities								
Derivative financial liabilities net settled	910	-	180	164	377	252	30	1,003
Derivative financial liabilities gross settled[1]	58	-	(2)	6	53	48	41	146
Inflows		-	(50)	(133)	(322)	(378)	(461)	(1,344)
Outflows		-	48	139	375	426	502	1,490
Total derivative financial liabilities	**968**	**-**	**178**	**170**	**430**	**300**	**71**	**1,149**
Total financial liabilities	**10,499**	**6,292**	**1,917**	**1,317**	**2,937**	**4,821**	**1,085**	**18,369**
Net contractual cash flows		**(5,575)**	**(1,478)**	**(1,345)**	**(3,101)**	**(4,802)**	**(1,091)**	**(17,392)**

[1] Includes both forward foreign exchange contracts and cross-currency interest rate swaps; cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.
[2] Cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.
[3] Based on the maturity profiles above, the council is also exposed to liquidity risk as a guarantor of all of the LGFA's borrowings. The information on the LGFA borrowings is disclosed in note F4. This guarantee becomes callable in the event of the LGFA failing to pay its borrowings when they fall due. However, this is not considered a significant risk as it is not anticipated that the guarantee will become payable.

Section E: Financial risk management

E4 Liquidity risk (continued)

Group	2017							
$million	**Carrying amount**	**On demand**	**<1 year**	**1-2 years**	**2-5 years**	**5-10 years**	**>10 years**	**Total contractual cash flows**
Non-derivative financial assets								
Cash and cash equivalents	337	332	6	-	-	-	-	338
Receivables (excluding GST receivables and prepayments)	331	35	294	3	-	-	-	332
Other financial assets	417	275	42	22	38	37	22	436
Total non-derivative financial assets	**1,085**	**642**	**342**	**25**	**38**	**37**	**22**	**1,106**
Derivative financial assets								
Derivative financial assets net settled	59	-	20	13	13	17	14	77
Derivative financial assets gross settled[1]	111	-	(30)	(38)	(149)	(169)	(84)	(470)
Inflows		-	35	60	72	1,502	332	2,001
Outflows		-	(65)	(98)	(221)	(1,671)	(416)	(2,471)
Total derivative financial assets	**170**	-	**(10)**	**(25)**	**(136)**	**(152)**	**(70)**	**(393)**
Total financial assets	**1,255**	**642**	**332**	**-**	**(98)**	**(115)**	**(48)**	**713**
Non-derivative financial liabilities								
Bank overdraft	6	6	-	-	-	-	-	6
Payables and accruals (excluding income received in advance)	656	76	578	2	-	-	-	656
Secured borrowings[2]	7,704	-	1,206	782	2,514	3,758	961	9,221
Unsecured borrowings	596	-	165	282	174	-	-	621
Financial guarantees[3]	42	5,580	-	-	-	-	-	5,580
Total non-derivative financial liabilities	**9,004**	**5,662**	**1,949**	**1,066**	**2,688**	**3,758**	**961**	**16,084**
Derivative financial liabilities								
Derivative financial liabilities net settled	762	-	170	149	321	244	45	929
Derivative financial liabilities gross settled[1]	110	-	3	5	82	96	102	288
Inflows		-	(185)	(39)	(333)	(356)	(639)	(1,552)
Outflows		-	188	44	415	452	741	1,840
Total derivative financial liabilities	**872**	**-**	**173**	**154**	**403**	**340**	**147**	**1,217**
Total financial liabilities	**9,876**	**5,662**	**2,122**	**1,220**	**3,091**	**4,098**	**1,108**	**17,301**
Net contractual cash flows		**(5,020)**	**(1,790)**	**(1,220)**	**(3,189)**	**(4,213)**	**(1,156)**	**(16,588)**

[1] Includes both forward foreign exchange contracts and cross-currency interest rate swaps; cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.
[2] Cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.
[3] Based on the maturity profiles above, the council is also exposed to liquidity risk as a guarantor of all of the LGFA's borrowings. The information on the LGFA borrowings is disclosed in note F4. This guarantee becomes callable in the event of the LGFA failing to pay its borrowings when they fall due. However, this is not considered a significant risk as it is not anticipated that the guarantee will become payable.

Section E: Financial risk management

E4 Liquidity risk (continued)

Council	2018							
$million	Carrying amount	On demand	<1 year	1-2 years	2-5 years	5-10 years	>10 years	Total contractual cash flows
Non-derivative financial assets								
Cash and cash equivalents	584	586	-	-	-	-	-	586
Receivables (excluding prepayments)	212	-	212	-	-	-	-	212
Other financial assets	2,184	-	462	283	541	867	1,003	3,158
Total non-derivative financial assets	**2,980**	**586**	**674**	**283**	**541**	**867**	**1,003**	**3,956**
Derivative financial assets								
Derivative financial assets net settled	35	-	17	13	7	5	4	45
Derivative financial assets gross settled[1]	245	-	(48)	(46)	(202)	(14)	(33)	(343)
Inflows		-	64	145	127	2,732	359	3,427
Outflow		-	(112)	(191)	(329)	(2,746)	(392)	(3,770)
Total derivative financial assets	**280**	**-**	**(31)**	**(33)**	**(195)**	**(9)**	**(29)**	**(298)**
Total financial assets	**3,260**	**586**	**643**	**250**	**346**	**858**	**974**	**3,658**
Non-derivative financial liabilities								
Payables and accruals (excluding income received in advance)	604	-	607	-	-	-	-	607
Secured borrowings[2]	8,313	-	993	1,077	2,325	4,420	881	9,696
Financial guarantees[3]	41	6,362	-	-	-	-	-	6,362
Total non-derivative financial liabilities	**8,958**	**6,362**	**1,600**	**1,077**	**2,325**	**4,420**	**881**	**16,665**
Derivative financial liabilities								
Derivative financial liabilities net settled	678	-	132	128	294	174	18	746
Derivative financial liabilities gross settled[1]	58	-	(2)	6	53	49	41	146
Inflows		-	(35)	(133)	(322)	(378)	(461)	(1,329)
Outflows		-	33	139	375	426	502	1,475
Total derivative financial liabilities	**736**	**-**	**129**	**134**	**347**	**222**	**59**	**892**
Total financial liabilities	**9,694**	**6,362**	**1,729**	**1,211**	**2,672**	**4,642**	**940**	**17,557**
Net contractual cash flows		**(5,776)**	**(1,086)**	**(961)**	**(2,326)**	**(3,784)**	**34**	**(13,899)**

[1] Includes both forward foreign exchange contracts and cross-currency interest rate swaps; cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.
[2] Cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.
[3] Based on the maturity profiles above, the council is also exposed to liquidity risk as a guarantor of all of the LGFA's borrowings. The information on the LGFA borrowings is disclosed in note F4. This guarantee becomes callable in the event of the LGFA failing to pay its borrowings when they fall due. However, this is not considered a significant risk as it is not anticipated that the guarantee will become payable.

On 1 July 2018 Watercare's treasury function was disestablished. Their treasury services are now provided by Group Treasury. The table below shows the impact on the council's contractual cash flows.

$million	Carrying amount	On demand	<1 year	1-2 years	2-5 years	5-10 years	>10 years	Total contractual cash flows
Other financial assets	-	-	(197)	(162)	1,145	(660)	(240)	(114)
Derivative financial assets net settled	-	-	3	1	2	1	-	7
Derivative financial liabilities net settled	-	-	45	33	81	79	12	250

Section E: Financial risk management

E4 Liquidity risk (continued)

Council	2017							
$million	**Carrying amount**	**On demand**	**<1 year**	**1-2 years**	**2-5 years**	**5-10 years**	**>10 years**	**Total contractual cash flows**
Non-derivative financial assets								
Cash and cash equivalents	279	280	-	-	-	-	-	280
Receivables (excluding prepayments)	256	-	256	-	-	-	-	256
Other financial assets	2,175	236	198	184	608	907	1,103	3,236
Total non-derivative financial assets	**2,710**	**516**	**454**	**184**	**608**	**907**	**1,103**	**3,772**
Derivative financial assets								
Derivative financial assets net settled	51	-	16	12	10	15	14	67
Derivative financial assets gross settled[1]	110	-	(30)	(38)	(149)	(169)	(84)	(470)
Inflows		-	25	24	72	1,502	332	1,955
Outflow		-	(55)	(62)	(221)	(1,671)	(416)	(2,425)
Total derivative financial assets	**161**	**-**	**(14)**	**(26)**	**(139)**	**(154)**	**(70)**	**(403)**
Total financial assets	**2,871**	**516**	**440**	**158**	**469**	**753**	**1,033**	**3,369**
Non-derivative financial liabilities								
Payables and accruals (excluding income received in advance)	653	-	653	-	-	-	-	653
Secured borrowings[2]	7,704	-	1,206	782	2,514	3,758	961	9,221
Financial guarantees[3]	42	5,883	-	-	-	-	-	5,883
Total non-derivative financial liabilities	**8,399**	**5,883**	**1,859**	**782**	**2,514**	**3,758**	**961**	**15,757**
Derivative financial liabilities								
Derivative financial liabilities net settled	550	-	122	110	222	136	21	611
Derivative financial liabilities gross settled[1]	105	-	(3)	5	82	96	102	282
Inflows		-	(139)	(39)	(333)	(356)	(639)	(1,506)
Outflows		-	136	44	415	452	741	1,788
Total derivative financial liabilities	**655**	**-**	**119**	**115**	**304**	**232**	**123**	**893**
Total financial liabilities	**9,054**	**5,883**	**1,978**	**897**	**2,818**	**3,990**	**1,084**	**16,650**
Net contractual cash flows		**(5,367)**	**(1,538)**	**(739)**	**(2,349)**	**(3,237)**	**(51)**	**(13,281)**

[1] Includes both forward foreign exchange contracts and cross-currency interest rate swaps; cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.
[2] Cash flows denominated in foreign currencies are translated at the spot rates as at 30 June.
[3] Based on the maturity profiles above, the council is also exposed to liquidity risk as a guarantor of all of the LGFA's borrowings. The information on the LGFA borrowings is disclosed in note F4. This guarantee becomes callable in the event of the LGFA failing to pay its borrowings when they fall due. However, this is not considered a significant risk as it is not anticipated that the guarantee will become payable.

Section F: Other disclosures

This section provides other financial information that will enhance clarity and understanding of this financial report. Required disclosures such as the remuneration of Auckland's mayor, councillors and local board members are presented under "related parties' transactions".

The notes included in this section are as follows:

F1 Non-current assets held for sale

F2 Deferred tax assets and liabilities

F3 Investment in other entities

F4 Contingencies, commitments and subsequent events

F5 Related party transactions

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

Section F: Other disclosures

F1 Non-current assets held for sale

Accounting policy

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses are recognised in the surplus or deficit.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
CRL project assets	-	217	-	-
Land and buildings	33	99	33	39
Other	2	16	-	1
Non-current assets held for sale	**35**	**332**	**33**	**40**

F2 Deferred tax assets and liabilities

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

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Deferred tax assets				
-to be recovered >12 months	18	12	-	-
-to be recovered within 12 months	1	5	-	-
Deferred tax liabilities				
-to be recovered >12 months	(1,442)	(1,129)	-	-
-to be recovered within 12 months	-	-	-	-
Net deferred tax liabilities	**(1,423)**	**(1,112)**	**-**	**-**

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

$million	**Property, plant and equipment**	**Intangible assets**	**Other**	**Tax losses carried forward**	**Total**
Opening balance	(1,411)	(3)	49	253	(1,112)
Credited/(charged) to surplus/(deficit)	(42)	-	4	4	(34)
Credited/(charged) to other comprehensive revenue	(275)	-	(2)	-	(277)
Balance at 30 June 2018	**(1,728)**	**(3)**	**51**	**257**	**(1,423)**
Opening balance	(1,370)	(2)	76	241	(1,055)
Credited/(charged) to surplus/(deficit)	(41)	(1)	(26)	12	(56)
Credited/(charged) to other comprehensive revenue	-	-	(1)	-	(1)
Balance at 30 June 2017	**(1,411)**	**(3)**	**49**	**253**	**(1,112)**

Section F: Other disclosures

F3 Investment in other entities

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Investment in subsidiaries	-	-	20,630	21,068
Investment in associates	1,427	1,080	-	2
Investment in joint ventures	324	16	322	14
Total Investment in other entities	**1,751**	**1,096**	**20,952**	**21,084**

Investment in subsidiaries

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

Investment in joint ventures and associates

Accounting policy

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

The Group and council hold investments in the following joint ventures and associates as at 30 June 2018:

			Interest		
Entity	**Held by**	**Relationship**	**2018**	**2017**	**Nature**
City Rail Link Limited (CRLL)	Council	Joint venture	50.00%	-	Design and construction of CRL
North Tugz Limited	Group	Joint venture	50.00%	50.00%	Towage and pilotage services
PortConnect Limited	Group	Joint venture	50.00%	50.00%	Online cargo management system
Waste Disposal Services Limited	Council	Joint venture	50.00%	50.00%	Landfill business
Haumaru Housing Limited Partnership (Haumaru)	Council	Joint venture	49.00%	49.00%	Social rental housing for older people in Auckland
New Zealand Food Innovation Auckland Limited	Council	Joint venture	33.30%	33.30%	Science and Technology Resources centre
Auckland International Airport Limited (AIAL)	Group	Associate	22.15%	22.33%	Airport
Longburn Intermodal Freight Hub Limited	Group	Associate	33.30%	33.30%	Inland freight distribution hub
Tamaki Redevelopment Company Limited	Council	Associate	41.00%	41.00%	Property development
New Lynn Central Limited Partnership	Council	Associate	42.00%	42.00%	Property development

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

Auckland International Airport Limited (AIAL)

The Group's significant investment is AIAL. The key financial information is as follows:

$million	Total assets	Total liabilities	Gross revenue	Net profit after tax	Percentage of interest held
As at 30 June 2018					
Auckland International Airport Limited	8,197	2,515	684	650	22.15%
As at 30 June 2017					
Auckland International Airport Limited	6,504	2,475	629	333	22.33%

Section F: Other disclosures

F3 Investment in other entities (continued)

Auckland International Airport Limited (continued)
The fair value of the Group's investment in AIAL is $1.8 billion (2017: $1.9 billion).

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

City Rail Link Limited
City Rail Link Limited (CRLL) is a Crown entity co-funded by the Crown and the council (the Sponsors) for the purpose of designing and constructing an underground rail line linking Britomart and the city centre with the existing western line near Mt. Eden. The expected costs of the project are $3.4 billion which will be confirmed once all the contracts are finalised. The maximum funding limits for the project agreed by the Sponsors totals $3.6 billion. In line with the LTP 2018-2028, the council's funding limit is $1.8 billion. The project is expected to be completed in 2024.

Effective 1 July 2017, the council recognised 50% of City Rail Link (CRL) assets that were transferred from Auckland Transport to CRLL as an investment in joint venture. As at 30 June 2018, the Group and the council's investment in CRLL amounted to $307 million (2017: $nil) which includes the full year funding received by CRLL from the council of $93 million (2017: $nil) and operating losses and write-downs incurred by CRLL of $4 million (2017: $nil). The council received the Crown's reimbursement of 50% of CRL assets of $218 million (previously classified under "Non-current assets held for sale").

At 30 June 2017, all capital commitments in respect of the CRL project were recorded by Auckland Transport. Following the establishment of CRLL, these capital contracts were transferred from Auckland Transport. The Group and the council are now recognising their share of CRLL's capital commitments (see Note F4), which is included as part of the council's total funding commitment to CRLL.

Haumaru Housing Limited Partnership
The council has signed a funding agreement with Haumaru effective 1 July 2017, whereby the council will provide total funding of $30 million over the period from 1 July 2017 to 30 June 2025. The funding provided will be used by Haumaru solely for capital renewals of the Housing for Older People portfolio. Refer to Note B1 for further information.

Contingent liabilities of associates and joint ventures
Contingent liabilities of the Group and the council's associates and joint ventures are not significant to the Group and the council.

F4 Contingencies, commitments and subsequent events

CONTINGENCIES

Accounting policy

The Group and the council do not recognise contingent liabilities and contingent assets in the financial statements due to their uncertainty or the fact that they cannot be reliably measured. Disclosures are provided for as follows:

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

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

Quantifiable contingent liabilities

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Guarantees and indemnities	6,180	5,538	6,321	5,841
Uncalled capital	2	2	2	2
Legal proceedings and disputes	9	3	9	3
Total quantifiable contingent liabilities	**6,191**	**5,543**	**6,332**	**5,846**

Section F: Other disclosures

F4 Contingencies, commitments and subsequent events (continued)

Quantifiable contingent liabilities (continued)

a. Guarantees and indemnities

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

As a guarantor

The council is one of 45 local authority guarantors of the LGFA. The LGFA's loans to local authorities are $8.3 billion (2017: $7.9 billion), of which the Group and the council have borrowed $2.1 billion (2017: $2.4 billion). As a result, the Group and the council's cross-guarantee on LGFA's loans to other local authorities is $6.2 billion (2017: $5.5 billion).

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

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

Watercare Services Limited	The council has provided a guarantee for certain Watercare borrowings. At 30 June 2018, the borrowings for which this guarantee is provided totalled $142 million (2017: $303 million).

b. Uncalled capital

LGFA	The council is one of 31 shareholders of the LGFA. In that regard it has uncalled capital of $2 million (2017: $2 million). When aggregated with the uncalled capital of other shareholders, $20 million is available in the event that an imminent default is identified.

c. Legal proceedings and disputes

- Legal claims against the Group and the council exist for contract challenges, building defects, land issues, consents, flooding damage, valuations and other sundry disputes.
- Where it is assessed that the likelihood of having to make a payment under the claim is more than remote, the Group and the council have shown the amount claimed or the maximum potential cost. It does not represent either an admission that the claim is valid or an estimation of the possible amount of any award against the Group and the council.
- Amounts shown do not include any interest or costs that may be claimed if these cases were decided against the Group and the council.
- A provision is provided on legal claims that meet the recognition criteria as disclosed in Note D5.

Section F: Other disclosures

F4 Contingencies, commitments and subsequent events (continued)

Unquantifiable contingent liabilities

Contaminated land	• A significant degree of estimation has been involved to calculate the provision for remediation of contaminated land; as a result, the Group and the council may be subject to further liability that is not currently recognised. • Further sites are likely to be identified in the future and should testing confirm contamination, the Group and the council will be obliged to undertake remedial action. • Provision on contaminated land is provided in Note D5.
Weathertightness	• A significant degree of estimation has been involved to calculate the provision for weathertightness. As a result, the Group and the council may be subject to further liability that is not currently recognised • Provision on weathertightness is provided in Note D5.
Carter Holt Harvey (CHH)	In 2013, the Ministry of Education (MOE) initiated High Court proceedings against Carter Holt Harvey (CHH) and others alleging inherent defects in the shadow clad plywood cladding sheets manufactured and distributed by CHH. The MOE's claim against CHH is for 833 school buildings, 36 of which are located within the Auckland region. In 2016, CHH commenced proceedings against 48 councils, including Auckland Council, alleging a breach of duty in the processing of building consents, undertaking building inspections and issuing Code Compliance Certificates. During the current year, the councils sought to strike out CHH's claims against them. The High Court declined the strike out of the claim but struck out proceedings in relation to 28 school buildings (one in Auckland) built outside the 10 year long stop contained within the Building Act 2004. Further, CHH applied for trial staging, with proceedings to commence in relation to 20 buildings. MOE opposed the application, seeking a trial on the determination of whether shadow clad is inherently defective. The High Court accepted the MOE proposal. CHH has appealed this decision. At present, there is still insufficient information to conclude on potential liability and claim quantum, if any.
Snapper Services Limited	Auckland Transport has been advised of a potential claim by Snapper Services Limited against Auckland Transport in relation to the Auckland Integrated Fare System. Auckland Transport has prepared a claim against Snapper. Legal proceedings have not been issued by either party.

Contingent and future assets

Repurchase of heritage buildings	• In June 2004, one of the former councils sold a number of heritage buildings that form part of the Britomart precinct. • The council has a right to repurchase these buildings for $1 after 150 years (June 2168). No estimate has been made of the financial effect of this transaction due to the long period involved. The council anticipates that an estimate will be established 20 years before this repurchase occurs.

Section F: Other disclosures

F4 Contingencies, commitments and subsequent events (continued)

Contingent and future assets (continued)

Entrust (previously named Auckland Energy Consumer Trust)	• The council is currently a capital beneficiary of Entrust when it terminates on 27 August 2073. • As at 30 June 2018 the Group and the council are not able to reliably estimate the value of any future benefit that may result from this arrangement.
Robertson art donation	A binding agreement was established in 2009 by Julian and Josie Robertson (the donors) to donate certain works of art owned by them to the Group for display in the Auckland Art Gallery. The donors currently hold the works of art for their own and others' enjoyment, therefore the Group will only gain possession of the artworks on the contribution date specified in the agreement. The Group is currently unable to measure the right to receive assets reliably due to the uncertainty in the timing of the donation and certain restrictions set out in the agreement.
Shared Responsibility Scheme assets	• The council's Shared Responsibility Scheme was created to assist clubs with the construction of facilities on council-owned land. • Under the scheme, the clubs will control the use of the asset constructed and the council will gain control of the asset if the club vacates the facility. • The Group is currently unable to determine the likelihood of clubs that might vacate their facility, and consequently the amount of asset that might vest with the council.

COMMITMENTS

Capital commitments

Capital commitments relate to obligations which the Group and council have committed to. This specifically relates to work that is yet to commence and the expenditure that is yet to be incurred.

The Group's and council's capital commitments are as follows:

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Property, plant and equipment				
CRL project	-	324	-	-
Roading networks	194	218	-	-
Water and wastewater	213	211	-	-
Operational land and buildings	122	115	71	96
Other operational assets	101	105	35	52
Rolling stock	108	-	-	-
Restricted improvements	46	38	46	38
Stormwater	59	54	66	69
Restricted parks, reserves and buildings	1	5	1	5
Wharves	1	5	-	-
Marina structures	-	-	-	-
Total property, plant and equipment	845	1,075	219	260
Intangible assets	14	17	12	8
Share of capital commitments from joint venture (CRLL)	128	-	128	-
Total capital commitments	**987**	**1,092**	**359**	**268**

Funding commitment

The council has entered into a cost-sharing agreement with the Ministry of Business, Innovation and Employment to provide funding for the hosting of the 36th America's Cup. The agreement commits the council to fund $98 million of operating and capital costs. These costs are expected to be incurred by July 2020.

Section F: Other disclosures

F4 Contingencies, commitments and subsequent events (continued)

Operating lease commitments

The Group and the council as lessee

Accounting policy

The Group and the council lease property, plant and equipment from third parties in the normal course of business with lease terms varying from 1 month to 70 years (2017: 1 month to 70 years). Payments made under operating leases (net of any incentives received from the lessor) are expensed on a straight-line basis over the lease term.

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

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Minimum operating lease payments payable				
Not later than one year	109	58	12	11
Later than one year and not later than five years	426	203	20	28
Later than five years	426	208	2	4
Total minimum operating lease payments payable	**961**	**469**	**34**	**43**

Leases may be renewed at the Group and the council's discretion, with rents set by reference to current market rates for items of equivalent age and condition. In some circumstances, the Group and the council have the option to purchase the asset at the end of the lease term.

Contingent rents of $2 million have been recognised during the year for the Group and the council (2017: $2 million). The total future sublease payments expected to be received under non-cancellable subleases at balance date is $4 million for the Group and the council (2017: $4 million).

The Group and the council as lessor

Accounting policy

The Group and the council lease certain property, plant and equipment to third parties including land and buildings and some commercial and residential property. The leases have non-cancellable periods ranging from 1 month to 100 years (2017: 1 month to 100 years) with subsequent renewals negotiated with the lessee. Rental revenue (net of any incentives given to lessees) is recognised as revenue on a straight-line basis over the lease term.

Future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Minimum operating lease payments receivable				
Not later than one year	46	42	15	14
Later than one year and not later than five years	137	107	30	33
Later than five years	171	226	108	181
Total minimum operating lease payments receivable	**354**	**375**	**153**	**228**

Contingent rent recognised during the year amounted to $0.5 million (2017: $0.3 million) for the Group and the council.

Section F: Other disclosures

F4 Contingencies, commitments and subsequent events (continued)

SUBSEQUENT EVENTS

Watercare treasury function disestablishment
On 1 July 2018 Watercare transferred its treasury management to the council. As part of the transfer, all derivative financial instruments were novated to the council for nil consideration. The derivatives were in a loss position of $217 million at that date. This loss was recognised as an injection of capital, and consequently an increase in the council's investment in Watercare.

Auckland Council Investment Limited (ACIL) disestablishment
On 2 July 2018 ACIL transferred its shares in Ports of Auckland Limited and Auckland International Airport Limited to the council in advance of disestablishing ACIL.

Housing infrastructure fund loan facility
On 21 September 2018 the Crown announced its agreement with Auckland Council to provide a 10-year interest free loan facility of up to $339.2 million to support infrastructure projects in Redhills and Whenuapai. The loan facility agreements are in the process of being signed.

None of the above transactions had financial impact on the current year group results or its financial position at 30 June 2018.

Section F: Other disclosures

F5 Related party transactions

Accounting policy

Related parties include subsidiaries, associates, joint ventures, key management personnel, the elected representatives of the council and their close family members and entities controlled by them. Close family members include spouses or domestic partners, children and dependants.

Apart from the disclosure of key management personnel remuneration, transactions with related parties that are on an arm's length basis are not disclosed.

All transactions with related parties were made on an arm's length basis in the current and prior financial years.

Key management personnel remuneration

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

	Council	
$	**2018**	**2017**
Mayor and councillors		
Remuneration	2,486,633	2,515,781
Total Mayor and councillors	**2,486,633**	**2,515,781**
Payments during the year to the chief executive		
-Salary and other short-term employee benefits	671,023	669,903
-Post-employment benefit (Kiwi saver contributions)	20,131	20,097
Total chief executive remuneration	**691,154**	**690,000**
Executive leadership team		
-Salary and other short-term employee benefits	3,541,555	3,944,887
-Post-employment benefit (Kiwi saver contributions)	98,288	108,840
-Termination benefits	277,803	405,739
Total executive leadership team remuneration	**3,917,646**	**4,459,466**
Total key management personnel remuneration	**7,095,433**	**7,665,247**

Key management personnel comprise 34 individuals. The total number of elected members of the governing body during the financial year was 22. This comprised 21 fulltime equivalent elected members with one elected member resigning during the year and being replaced by another elected member. Also included are 12 executive leaders with two executive leaders leaving during the financial year, one executive leader's position no longer included in the executive leadership team, and one new executive leader being appointed in an acting capacity during the financial year (10 FTE).

Local government disclosures

Employee numbers and remuneration bands

	Group		Council	
Full-time equivalent	**2018**	**2017**	**2018**	**2017**
Full-time employees	9,002	8,927	5,255	5,299
Part time employees (full-time equivalent)	1,257	1,136	865	792
Total full-time equivalent	**10,259**	**10,063**	**6,120**	**6,091**

The numbers of employees who were employed at 30 June are detailed below. Those receiving remuneration of $60,000 or more are grouped into $20,000 bands. If there are less than six employees in a band, they are combined upwards with the next banding as stipulated in the LGA 2002.

Section F: Other disclosures

F5 Related party transactions (continued)

Local government disclosures (continued)

Employee numbers and remuneration bands (continued)

Group

Number of employees	2018	Number of employees	2017
<$60,000	5,159	<$60,000	5,399
$60,000-$79,999	2,404	$60,000-$79,999	2,380
$80,000-$99,999	1,949	$80,000-$99,999	1,864
$100,000-$119,999	1,160	$100,000-$119,999	1,022
$120,000-$139,999	595	$120,000-$139,999	556
$140,000-$159,999	289	$140,000-$159,999	261
$160,000-$179,999	149	$160,000-$179,999	132
$180,000-$199,999	85	$180,000-$199,999	85
$200,000-$219,999	52	$200,000-$219,999	54
$220,000-$239,999	41	$220,000-$239,999	43
$240,000-$259,999	31	$240,000-$259,999	28
$260,000-$279,999	14	$260,000-$279,999	9
$280,000-$299,999	8	$280,000-$299,999	21
$300,000-$319,999	13	$300,000-$319,999	8
$320,000-$359,999	16	$320,000-$339,999	7
$360,000-$399,999	6	$340,000-$359,999	6
$400,000-$459,999	6	$360,000-$419,999	7
$460,000-$899,999	8	$420,000-$479,999	6
		$480,000-$899,999	5
Total number of employees	**11,985**		**11,893**

Council

Number of employees	2018	Number of employees	2017
<$60,000	3,159	<$60,000	3,412
$60,000-$79,999	1,488	$60,000-$79,999	1,494
$80,000-$99,999	1,220	$80,000-$99,999	1,163
$100,000-$119,999	652	$100,000-$119,999	566
$120,000-$139,999	297	$120,000-$139,999	277
$140,000-$159,999	140	$140,000-$159,999	128
$160,000-$179,999	84	$160,000-$179,999	67
$180,000-$199,999	45	$180,000-$199,999	40
$200,000-$219,999	23	$200,000-$219,999	20
$220,000-$239,999	15	$220,000-$239,999	17
$240,000-$259,999	16	$240,000-$259,999	12
$260,000-$319,999	10	$260,000-$299,999	12
$320,000-$379,999	6	$300,000-$339,999	6
$380,000-$699,999	6	$340,000-$699,999	6
Total number of employees	**7,161**		**7,220**

Severance payments

For the year ended 30 June 2018, the council made 32 severance payments to employees totalling $839,212 (30 June 2017: 28 payments totalling $976,226).

The values of each severance payment were $125,881; $75,961; $73,801; $72,833; $67,384; $40,000; $33,000; $31,354; $30,329; $28,137; $28,132; $25,000; $24,605; $24,230; $15,353; $15,191; $14,364; $14,322; $11,000; $10,694; $10,101; $9,750; $7,003; $6,850; $6,841; $6,841; $6,350; $6,250; $6,073; $5,000; $4,089; $2,493.

Section F: Other disclosures

F5 Related party transactions (continued)

Local government disclosures (continued)

In addition to the above, for the year ended 30 June 2018, other members of the Group made 27 severance payments to employees totalling $984,496 (30 June 2017: 19 payments totalling $772,557).

The values of each of the severance payments made by other members of the Group were $155,873; $121,244; $90,280; $88,000; $79,310; $73,470; $48,333; $44,833; $30,846; $27,500; $25,667; $25,327; $21,392; $19,681; $18,091; $17,500; $16,230; $15,891; $10,500; $9,442; $9,333; $9,167; $6,973; $6,240; $4,840; $4,377; $4,156.

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

Mayor, councillor and local board members' remuneration
Remuneration Authority determines the remuneration to be paid to the Mayor, councillors and Local Board members. The Local Government Members (2017/18) (Local Authorities) Determination 2017 detailed the rates which apply from 1 July 2017 to 30 June 2018.

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

	Council	
$	2018	2017
Mayor		
Hon Phil Goff, CNZM, JP	273,906	181,394
Len Brown, JP	-	87,967
Councillors		
Arthur Anae	-	34,535
Josephine Bartley	33,935	-
Cameron Brewer	-	34,535
Dr Cathy Casey	107,530	105,746
Bill Cashmore	154,332	136,210
Ross Clow	127,399	117,551
Fa'anānā Efeso Collins	107,530	71,212
Linda Cooper, JP	107,530	105,746
Chris Darby	127,399	117,551
Alf Filipaina	107,530	105,746
Hon Christine Fletcher, QSO*	107,530	123,513
Richard Hills	107,530	71,212
Penny Hulse	127,399	132,582
Denise Lee	35,107	108,033
Mike Lee*	107,530	123,513
Daniel Newman, JP	107,530	71,212
Calum Penrose	-	34,535
Dick Quax	101,736	105,746
Greg Sayers	107,530	71,212
Desley Simpson, JP	107,530	71,212
Sharon Stewart, QSM	107,530	105,746
Sir John Walker, KNZM, CBE	107,530	105,746
Wayne Walker	107,530	105,746
John Watson	107,530	105,746
Penny Webster	-	40,916
George Wood, CNZM	-	40,916
Total mayor and councillor remuneration	**2,486,633**	**2,515,779**

*In 2017 Christine Fletcher and Mike Lee were paid $105,746 each by the council as elected member and $17,767 each by Auckland Transport as directors. No payments were received from Auckland Transport in the 2017/2018 financial year.

Section F: Other disclosures

F5 Related party transactions (continued)

Local government disclosures (continued)

Local Board members' remuneration

Under the LGA 2002, the council is required to disclose remuneration to Local Board members as follows:

$	2018	2017	$	2018	2017
Albert-Eden			**Devonport- Takapuna**		
Helga Arlington	-	13,953	Joseph Bergin	-	25,412
Lee Corrick	43,449	42,727	Mike Cohen, QSM, JP	42,484	41,779
Graeme Easte	43,449	42,727	Dr Grant Gillon	73,482	65,073
Glenda Fryer	53,407	49,995	Dianne Hale, QSO, JP	-	13,645
Peter Haynes	89,438	86,215	Jennifer McKenzie	42,484	28,135
Rachel Langton	43,449	42,727	Jan O'Connor	42,484	41,779
Benjamin Lee	43,449	28,774	Allison Roe, MBE	-	14,960
Jessica Rose	43,449	28,774	Michael Sheehy	42,484	28,135
Margi Watson	43,449	42,727	George Wood,CNZM	48,124	28,135
Tim Woolfield	-	13,953			
Total	**403,539**	**392,572**	**Total**	**291,542**	**287,053**
Franklin			**Great Barrier**		
Andrew Baker	110,841	101,066	Jeff Cleave	23,732	23,338
Malcolm Bell	41,772	41,079	Luke Coles	23,732	15,716
Alan Cole	41,772	41,079	Susan Daly	23,732	23,338
Brendon Crompton	41,772	41,079	Izzy Fordham	54,273	52,218
Sharlene Druyven	41,772	27,663	Judy Gilbert	-	7,622
Angela Fulljames	80,038	65,407	Shirley Johnson	23,732	15,716
Sarah Higgins	-	7,883	Christina Spence	-	7,622
Amanda Hopkins	41,772	27,663			
Murray Kay	44,532	41,079			
Niko Kloeten	41,772	27,663			
Dr Lyn Murphy	-	13,416			
Jill Naysmith	-	13,416			
Total	**486,043**	**448,493**	**Total**	**149,201**	**145,570**
Henderson-Massey			**Hibiscus and Bays**		
Paula Bold-Wilson	43,957	29,111	Christina Bettany	43,144	28,572
Brenda Brady, JP	44,084	48,789	David Cooper	43,144	42,427
Peter Chan, JP	43,957	43,227	Janet Fitzgerald, JP	43,144	43,707
Warren Flaunty, QSM	43,957	43,227	Gaye Harding-Kirikiri	-	13,855
Will Flavell	43,957	43,227	Gary Holmes	43,144	42,427
Matt Grey	43,957	29,111	Julia Parfitt, JP	86,796	83,373
Shane Henderson	93,469	73,042	Lovisa Rasmussen	-	13,855
Tracy Kirkley	-	15,698	Greg Sayers	-	13,855
Vanessa Neeson, JP	47,557	58,847	Caitlin Watson	43,144	28,572
Luke Wilson	-	14,117	Vicki Watson	43,144	28,572
			Lisa Whyte	-	13,855
			Mike Williamson	43,144	28,572
Total	**404,895**	**398,396**	**Total**	**388,804**	**381,642**
Howick			**Kaipātiki**		
Garry Boles	44,161	43,427	Dr Grant Gillion	-	13,775
Katrina Bungard	44,161	43,427	John Gillon	55,645	42,179
David Collings	96,960	92,754	Paula Gillon	42,889	28,404
Jim Donald, JP	44,161	43,427	Danielle Grant	73,176	68,729
Lucy Schwaner	-	16,522	Ann Hartley, JP	42,889	42,179
John Spiller	44,161	43,427	Richard Hills	-	13,775
Mike Turinsky	44,161	13,703	Kay McIntyre, QSM	42,889	56,002
Steve Udy	-	15,342	Lorene Pigg	-	13,775
Adele White	44,161	43,427	Anne-Elise Smithson	42,889	28,404
Bob Wichman	44,161	43,427	Adrian Tyler	42,889	28,404
Peter Young, JP	44,161	29,245	Lindsay Waugh	42,889	42,179
Total	**450,248**	**428,128**	**Total**	**386,155**	**377,805**

Section F: Other disclosures

F5 Related party transactions (continued)

Local government disclosures (continued)

Local Board members' remuneration (continued)

$	2018	2017	$	2018	2017
Māngere-Ōtāhuhu			**Manurewa**		
Tauanu'u Nick Bakulich	43,042	42,328	Joseph Allan	43,042	28,505
Carrol Elliot, JP	43,042	42,328	Michael Bailey	-	13,823
Makalita Kolo	43,042	28,505	Simeon Brown	-	39,070
Tafafuna'i Tasi Lauese, JP	43,042	42,328	Stella Cattle	43,042	28,505
Christine O'Brien	43,042	42,328	Sarah Colcord	43,042	28,505
Leau Peter Skelton	-	13,823	Angela Cunningham-Marino	43,042	42,328
Lemauga Lydia Sosene	84,001	81,522	Angela Dalton	86,491	83,083
Togiatolu Walter Togiamua	43,042	42,328	Hon George Hawkins, QSO	-	13,823
			Danella McCormick	-	13,823
			Rangi McLean	43,042	28,505
			Ken Penney	43,042	42,328
			Dave Pizzini	13,584	-
			Daryl Wrightson	-	13,823
Total	**342,253**	**335,490**	**Total**	**358,327**	**376,121**
Maungakiekie-Tāmaki			**Orākei**		
Don Allan	42,789	28,337	Ken Baguley	-	13,888
Josephine Bartley	56,969	66,878	Troy Churton	43,245	42,528
Debbie Burrows	48,704	28,337	Carmel Claridge	43,245	28,639
Brett Clark	-	13,743	Kate Cooke, JP	-	13,888
Bernie Diver	42,789	28,337	Colin Davis, JP	81,900	68,416
Bridget Graham, QSM	-	13,743	Toni Millar, QSM, JP	43,245	28,639
Nerissa Henry	42,789	28,337	Kit Parkinson	46,821	42,528
Chris Makoare	49,016	42,079	Ros Rundle	43,245	28,639
Maria Meredith	927	-	Desley Simpson, JP	-	27,451
Simon Randall	-	26,733	Mark Thomas	-	13,888
Obed Unasa	-	13,743	David Wong	43,245	28,639
Alan Verrall	42,789	42,079			
Total	**326,772**	**332,346**	**Total**	**344,946**	**337,143**
Ōtara-Papatoetoe			**Papakura**		
Apulu Reece Autagavaia	44,699	28,639	Felicity Auva'a	41,873	27,731
Dr Ashraf Choudhary, QSO, JP	43,245	28,639	Stuart Britnell	-	13,449
Fa'anānā Efeso Collins	-	27,353	Brent Catchpole	81,998	63,528
Lotu Fuli	85,170	68,705	Hon George Hawkins, QSO	41,873	27,731
Stephen Grey	-	13,888	Bill McEntee	41,873	52,048
Mary Gush	43,245	42,528	Graham Purdy	-	13,449
Donna Lee	43,245	42,528	Michael Turner	41,873	41,179
John McCracken	-	13,888	Katrina Winn	41,873	41,179
Ross Robertson, QSO, JP	43,245	42,528			
Dawn Trenberth	43,245	28,639			
Total	**346,094**	**337,335**	**Total**	**291,363**	**280,294**

Section F: Other disclosures

F5 Related party transactions (continued)

Local government disclosures (continued)

Local Board members' remuneration (continued)

$	2018	2017
Puketāpapa		
Anne-Marie Coury	42,484	28,135
Harry Doig	78,919	64,806
Julie Fairey	42,484	53,481
David Holm	42,484	41,779
Shail Kaushal	42,484	28,135
Ella Kumar, JP	42,484	41,779
Nigel Turnbull	-	13,645
Michael Wood	-	13,645
Total	**291,339**	**285,405**

$	2018	2017
Rodney		
Brent Bailey	41,365	27,394
Tessa Berger	41,365	27,394
Cameron Brewer	41,365	27,394
James Colville	-	13,285
Warren Flaunty, QSM	-	13,285
Steven Garner	-	13,285
Thomas Grace	-	13,285
Beth Houlbrooke	77,344	63,553
Louise Johnston	41,365	27,394
John McLean	-	13,285
Phelan Pirrie	41,365	42,679
Allison Roe, MBE	41,365	27,394
Greg Sayers	-	13,285
Colin Smith	41,365	27,394
Brenda Steele	41,365	52,235
Total	**408,264**	**402,541**

$	2018	2017
Upper Harbour		
Uzra Casuri Balouch, JP	42,179	27,933
Callum Blair	-	14,774
Nicholas Mayne	42,179	27,933
John McLean	42,179	41,479
Margaret Miles, QSM,JP	103,463	83,248
Brian Neeson, JP	42,383	43,953
Christine Rankin-MacIntyre	-	13,547
Lisa Whyte	75,611	74,490
Total	**347,994**	**327,357**

$	2018	2017
Waiheke		
Becs Ballard	-	8,145
Shirin Brown	25,358	24,938
Cath Handley	30,756	16,793
John Meeuwsen	25,358	24,938
Beatle Treadwell	-	8,145
Bob Upchurch	25,358	16,793
Paul Walden	55,024	58,092
Total	**161,854**	**157,844**

$	2018	2017
Waitākere Ranges		
Sandra Coney, QSO	42,077	52,559
Neil Henderson	42,077	41,379
Greg Presland	76,887	63,378
Steve Tollestrup	42,077	41,379
Saffron Toms	42,077	41,379
Ken Turner	912	-
Denise Yates, JP	25,397	41,379
Total	**271,504**	**281,453**

$	2018	2017
Waitematā		
Shale Chambers	42,585	54,560
Adriana Avendario Christie	42,585	28,202
Pippa Coom	82,070	66,833
Mark Davy	14,067	28,202
Christopher Dempsey	-	13,677
Greg Moyle	-	13,677
Richard Northey, ONZM	42,585	28,202
Denise Roche	13,439	-
Vernon Tava	46,005	50,559
Rob Thomas	42,585	41,879
Deborah Yates	-	13,677
Total	**325,921**	**339,468**

$	2018	2017
Whau		
Derek Battersby,QSM, JP	43,042	42,328
Ami Chand, JP	-	13,823
Catherine Farmer	43,042	55,482
Duncan Macdonald, JP	43,042	42,328
Ruby Manukia-Schaumkel	-	13,823
Simon Matafai	-	13,823
Te'eva Matafai	43,042	28,505
Tracy Mulholland	84,001	53,770
David Whitley	43,042	28,505
Susan Zhu	43,042	42,328
Total	**342,253**	**334,715**

The total local board remuneration as at 30 June 2018 is $7,119,311 (2017: $6,987,171).

Section F: Other disclosures

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

	Group		Council	
$million	**2018**	**2017**	**2018**	**2017**
Surplus/(deficit) after income tax	**660**	**640**	**(224)**	**(193)**
Add/(less) non-cash items				
Depreciation and amortisation	865	874	261	256
Vested assets	(572)	(374)	(226)	(106)
Net change in fair value of financial instruments	204	(240)	181	(147)
Net increase in fair value of investment property	(24)	(61)	(9)	(15)
Time value adjustments	16	46	16	44
Impairment of property, plant and equipment, receivables and other assets	(3)	28	5	14
Net (gain)/loss on disposal of property, plant and equipment and intangible assets	(42)	2	(54)	(5)
Share of surplus/(deficit) in associates and jointly-controlled entities (net of dividends received)	(80)	(22)	6	(4)
Other non-cash revenue	-	(8)	(1)	(8)
Less items classified as investing or financing activities	**(9)**	**2**	**1**	**7**
Add/(less) movements in working capital items	**86**	**5**	**70**	**(9)**
Net cash inflow/(outflow) from operating activities	**1,101**	**892**	**26**	**(166)**

Section G: Financial reporting and prudence benchmarks

Annual report disclosure statement for the year ended 30 June 2018

What is the purpose of this statement?

The purpose of this statement is to disclose the Group's financial performance in relation to various benchmarks to enable the assessment of whether the Group and the council are prudently managing their revenues, expenses, assets, liabilities, and general financial dealings.

The council is required to include this statement in its annual report in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the regulations). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

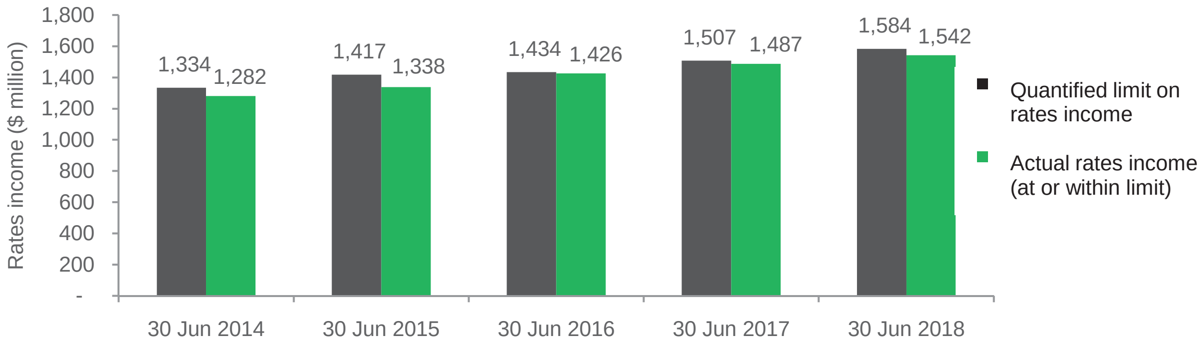
The benchmarks have been prepared for the full Auckland Council Group including Watercare Services Limited, Auckland Transport and Ports of Auckland Limited with the exception of the debt affordability section which excludes Watercare Services Limited and other specified debt. Watercare is excluded from the calculation of prudential ratios as it is not reliant on the council to fund its operation.

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

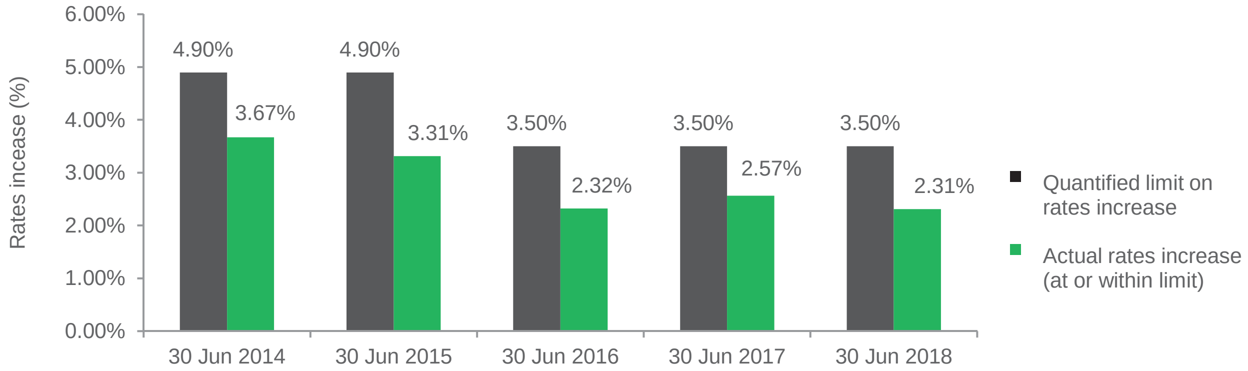
Rates affordability benchmark
The Group meets the rates affordability benchmark if:

- its actual rates income equals or is less than each quantified limit on rates, and
- its actual rates increase equals or is less than each quantified limit on rates increases.

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



Rate (increases) affordability
The following graph compares the year-on-year actual and the LTP percentage increase in the group's general rates income. The quantified limit is calculated using the increase in income, exclusive of growth in the rating base.



Section G: Financial reporting and prudence benchmarks

Debt affordability benchmark

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

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

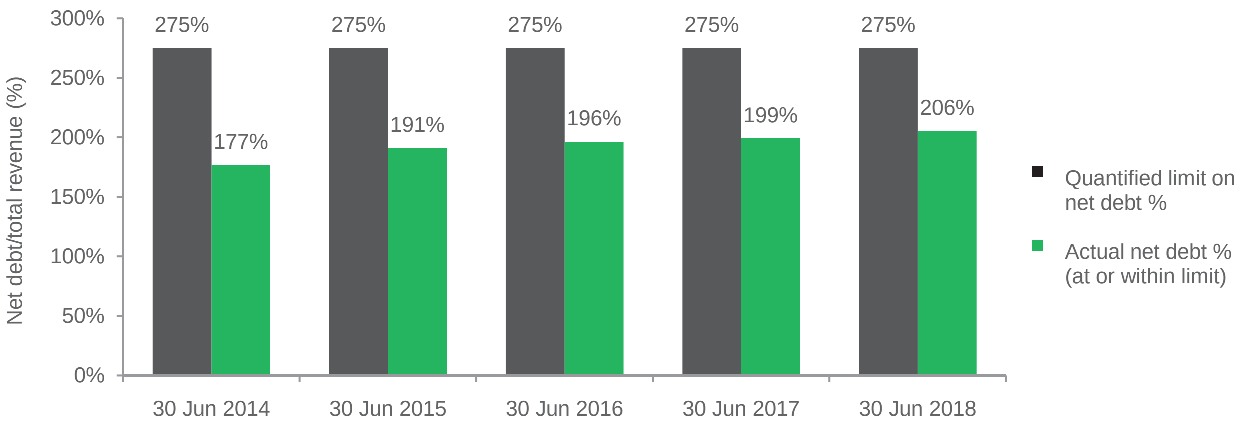
For the purposes of this section as prescribed in the LTP, the limits exclude any revenue or expenses, asset or liability relating to Watercare, including revenue, debt, investments, interest revenue and interest expense.

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

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

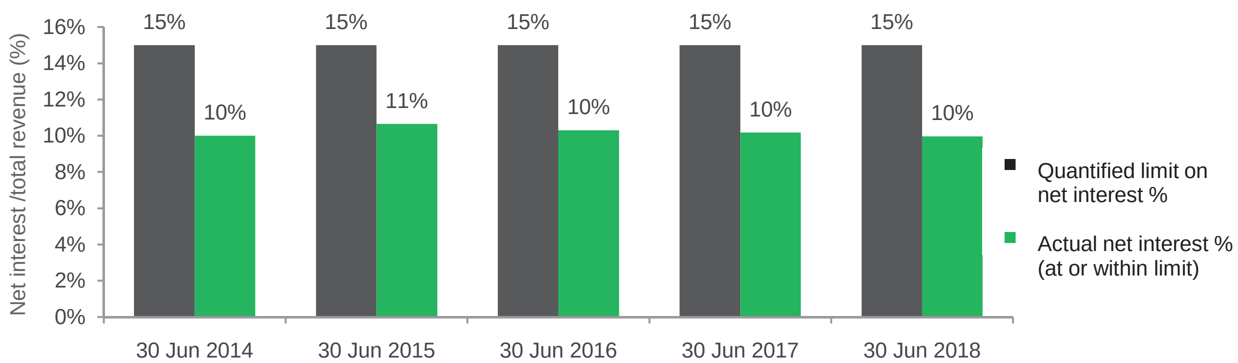
Net debt as a percentage of total revenue

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



Net interest as a percentage of total revenue

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

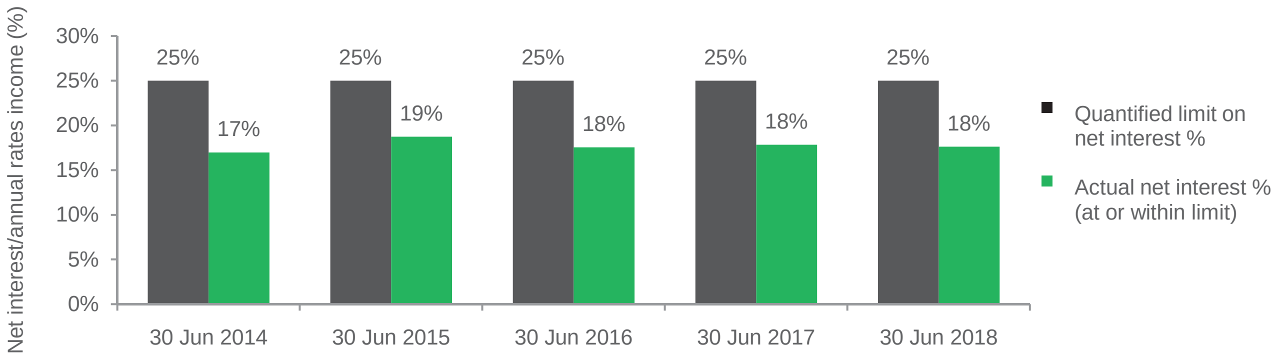


Section G: Financial reporting and prudence benchmarks

Debt affordability benchmark (continued)

Net interest as a percentage of annual rates income

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

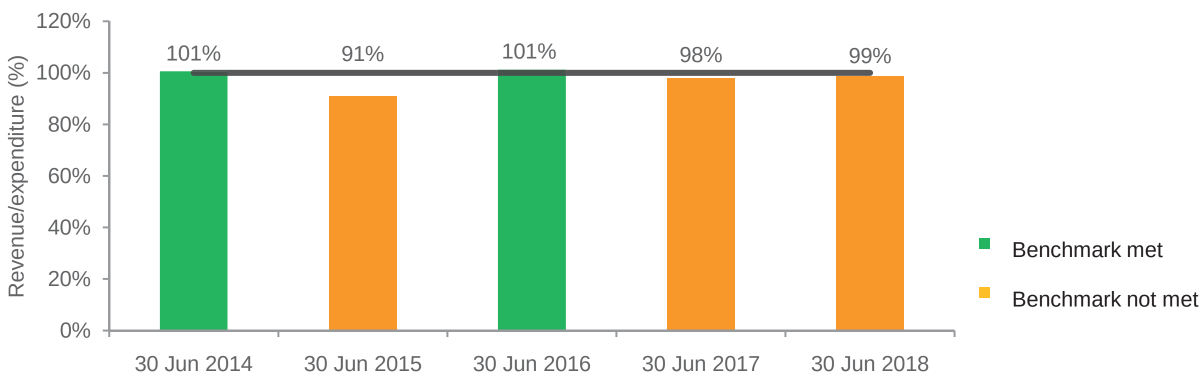


Balanced budget benchmark

The graph below displays the Group's revenue (excluding development contributions, financial contributions, vested assets, gains on derivatives financial instruments, and revaluations of property, plant, or equipment) as a proportion of operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment). The Group meets this benchmark if its revenue equals or is greater than its operating expenses.

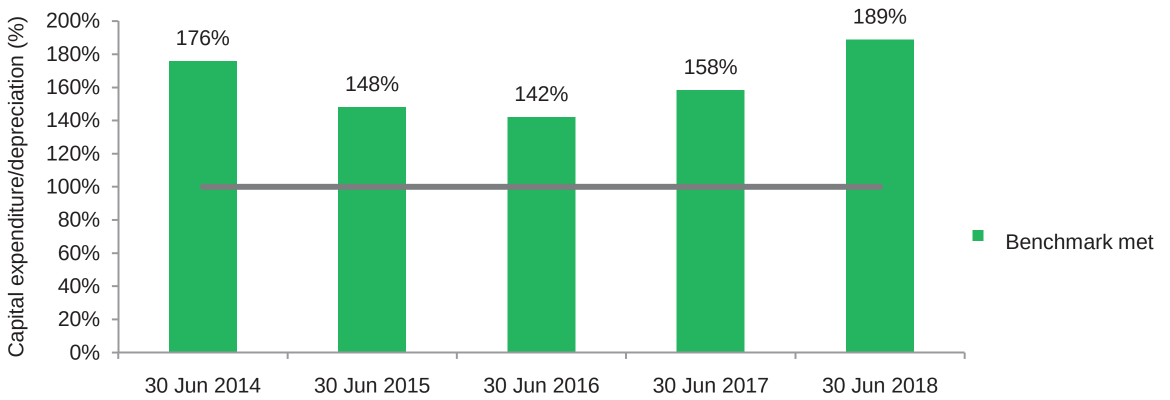
For the purpose of the balanced budget benchmark, movements in derivative financial instruments have been excluded in accordance with the disclosure requirement. The Group has entered into derivative transactions to mitigate any foreign currency exposure from its offshore borrowings as required by its risk management policies, therefore FX volatility has been included in this benchmark even though it has been fully mitigated. The results do not reflect the full economic substance of the transaction. Refer to note E1 for further details of the council's risk management policies on foreign exchange risk.

In line with our Financial Strategy the council continues to move toward full funding of depreciation by 2025. This results in our Long-term Plan 2015-2025 projecting adjusted revenue below adjusted operating expenditure until 2017/2018. The adjusted revenue was lower than the adjusted operating expenses in 2015 and 2017, mainly due to expenses incurred being greater than budget. Please see section A of this volume for the variance analysis on the "Results of Operations".

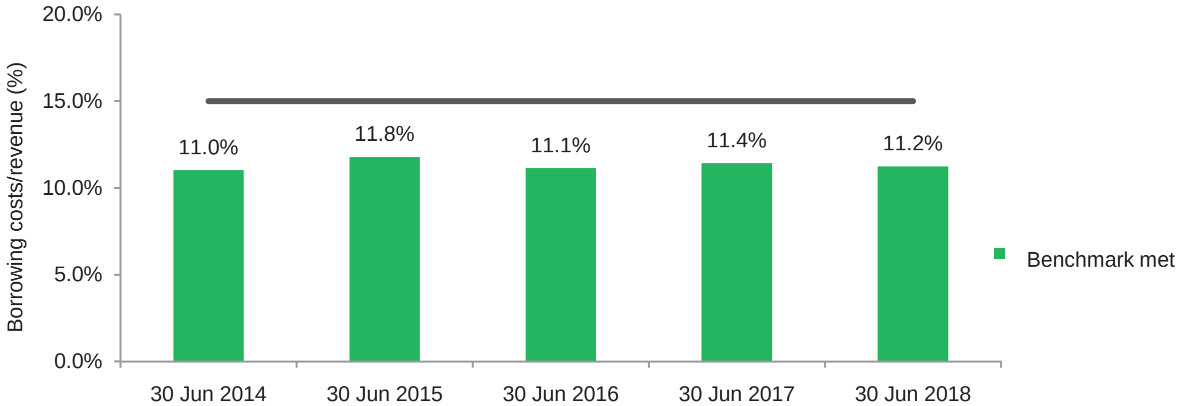


Section G: Financial reporting and prudence benchmarks

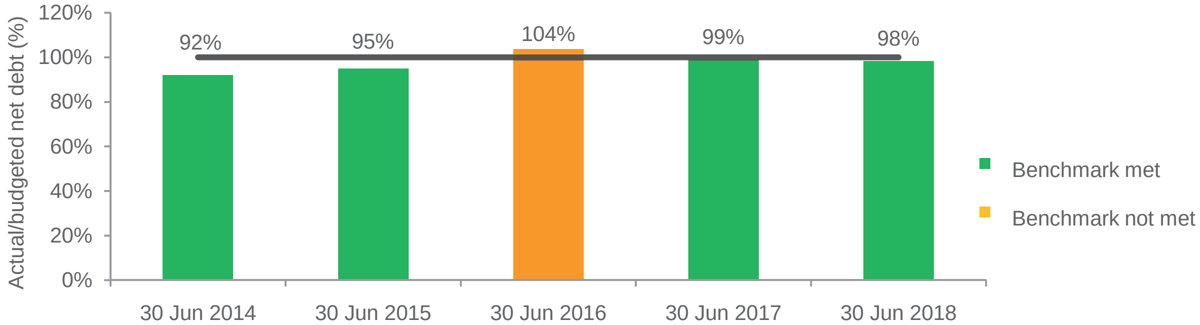
Essential services benchmark
The graph displays the Group's capital expenditure on network services as a proportion of depreciation on network services. The Group meets this benchmark if its capital expenditure on network services equals or is greater than depreciation on network services.



Debt servicing benchmark
The graph displays the Group's borrowing costs as a proportion of revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment). Because Statistics New Zealand projects the council's population will grow as fast as, or faster than, the national population growth rate, it meets the debt servicing benchmark if its borrowing costs equal or are less than 15% of its revenue.



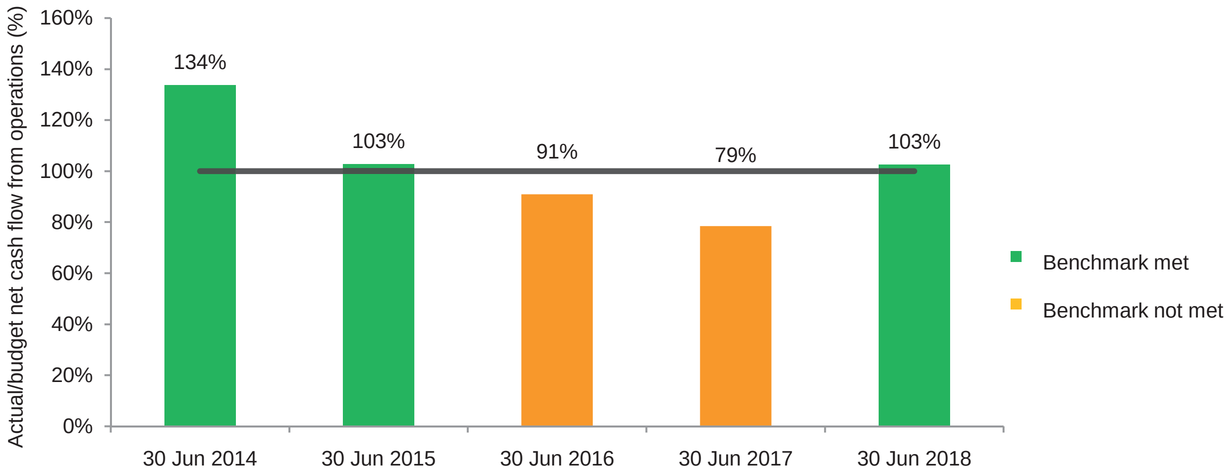
Debt control benchmark
The graph displays the Group's actual net debt as a proportion of planned net debt. In this statement, net debt means financial liabilities less financial assets (excluding trade and other receivables). The Group meets the debt control benchmark if its actual net debt equals or is less than its planned net debt. The 2016 net debt was adversely impacted by derivatives which were higher than planned as a result of the volatility in interest rates during the financial year which was not budgeted.



Section G: Financial reporting and prudence benchmarks

Operations control benchmark

This graph displays the Group's actual net cash flow from operations as a proportion of its planned net cash flow from operations. The Group meets the operations control benchmark if its actual net cash flow from operations equals or is greater than its planned net cash flow from operations.The 2016 actual cash flows was less than planned due to higher than expected cash outflows for delivery of council services and maintenance of council assets. The 2017 actual cash flows was less than planned due to higher payments to suppliers and employees driven by the higher operating expenses. Operating cash flows for 2018 were higher than 2017 and slightly above planned.



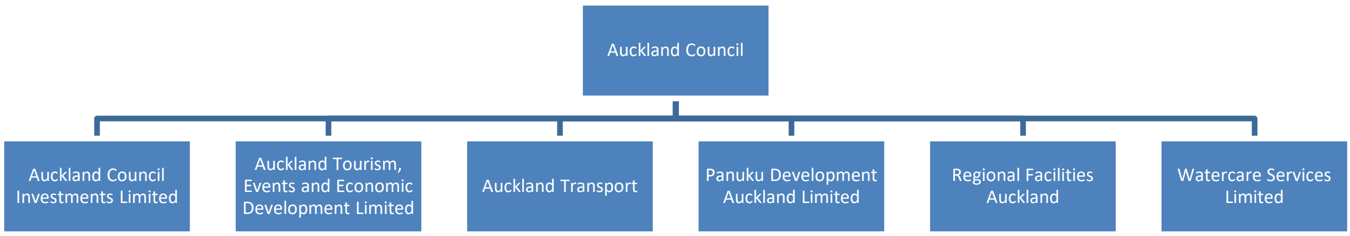
Section H: Council-controlled organisations

Overview

Council-controlled organisations (CCOs) are organisations in which the council controls 50 per cent or more of the votes or has the right to appoint 50 per cent (or more) of the directors or trustees.

A substantive CCO is a CCO that is either responsible for the delivery of a significant service or activity on behalf of Auckland Council, or owns or manages assets with a value of more than $10 million.

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



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

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

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

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

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

- a fair, safe and healthy Auckland;
- a green Auckland;
- an Auckland of prosperity and opportunity;
- a well-connected and accessible Auckland;
- a beautiful Auckland that is loved by its people;
- a culturally rich and creative Auckland; and,
- a Maori identity that is Auckland's point of difference in the world.

The key performance targets and other measures of the CCOs, together with the nature and scope of activities provided were consistent with the information set out in the LTP.

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

Section H: Council-controlled organisations

Auckland Council Investments
An Auckland Council Organisation

Overview

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

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

On 31 May 2018, council's Finance and Performance Committee resolved to transfer the assets and liabilities of Auckland Council Investments Limited to Auckland Council and subsequently wind up the entity. It is expected that this will be completed before 30 June 2019.

Objectives and contribution to LTP

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

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

Activities

ACIL's activities include:

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

For information on the above activities, actual performance, key performance targets and other measures set out in the LTP see the Governance and Support theme in Volume 1 of this Annual Report.

Directors

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

Section H: Council-controlled organisations

Auckland Tourism, Events and Economic Development
An Auckland Council Organisation

Overview

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

Objectives and contribution to LTP

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

- develop an innovation hub of the Asia-Pacific region
- an internationally connected and export driven city
- develop a business friendly and well-functioning city
- invest in people to grow skills and local workforce
- creating a vibrant, creative international city.

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

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

Activities

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

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

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

Directors

- David McConnell (Chairperson)
- Evan Davies
- Danny Chan
- Professor Stuart McCutcheon
- Glenys Coughlan
- Helen Robinson
- Mike Taitoko

Section H: Council-controlled organisations

Overview

Auckland Transport is responsible for managing the region's transport system. It provides transport services to Auckland's residents and visitors and is guardian of publicly held assets ranging from roads and footpaths to traffic signals, and managing public transport services and street parking.

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

Objectives and contribution to LTP

Auckland Transport's objectives and contribution to the LTP are aligned with the Transport and Access Outcome of the Auckland Plan, the Government Policy Statement on land transport, and the recommendations of the 2018 Auckland Transport Alignment Project.

A major priority for Auckland Transport is to work to address the very disturbing and continued upward trend in local road deaths and serious injuries. Auckland Transport is working towards a Vision Zero approach.

Auckland Transport will continue to focus on improving public transport services/options to increase patronage and mode share, particularly where this will help to reduce congestion.

Auckland Transport will focus on the customer, and work to improve the customer experience of the transport system and engagement.

To make the most of the available funding and resources, Auckland Transport is committed to continuous review and improvement of its operations, and will work with the NZ Transport Agency to seek to optimise the funding of its programme, both capital and operating.

Auckland Transport will play a key role in supporting the wider Council group to facilitate urban regeneration and placemaking, and to support development in both brownfield and greenfield areas.

Activities

The activities of Auckland Transport are centred on delivering transport services, such as:

- construction and maintenance of roads, footpaths, and streetscape amenities
- providing public transport facilities and services, including bus, rail and ferry services, and their associated infrastructure
- operating traffic signal networks
- providing parking facilities and enforcement
- establishing and promoting road safety and school travel initiatives.

For information on the above activities, actual performance, key performance targets and other measures set out in the LTP see the Transport theme in Volume 1 of this Annual Report.

Directors

- Dr Lester Levy (Chairperson)
- Kylie Clegg
- Mark Gilbert
- Wayne Donnelly (Deputy Chairperson)
- Sir Michael Cullen
- Raewyn Bleakley
- Mary-Jane Daly
- Dame Paula Rebstock

Section H: Council-controlled organisations

Panuku Development Auckland
An Auckland Council Organisation

Overview

Panuku Development Auckland Limited (Panuku), contributes to the implementation of the Auckland Plan and encourages economic development by facilitating the redevelopment of town centres that optimises and integrates good public transport outcomes, efficient and sustainable infrastructure and quality public services and amenities.

Panuku also manages council's properties not immediately required for service delivery, and commercial properties owned by Auckland Transport and the council that are held to generate revenue.

Panuku's aim is to achieve an overall balance of commercial and strategic outcomes.

Objectives and contribution to LTP

The objectives of Panuku Development Auckland are to:

- facilitate redevelopment of urban locations agreed to by council
- accommodate residential and/or commercial growth in those locations
- redevelop Auckland's waterfront
- optimise the council's property portfolio
- contribute to the management of council owned properties which are currently not used for the delivery of council services.

Activities

Panuku Development Auckland's activities cover four broad areas:

- redevelopment of urban locations and council owned land within the rural urban boundary
- redevelopment of council non-service property and where appropriate, review of council service property
- management of council non-service property and a range of other council owned commercial assets
- other property related services such as property advice, acquisition and disposals.

For information on the above activities, actual performance, key performance targets and other measures set out in the LTP see the Auckland development theme in Volume 1 of this Annual Report.

Directors

- Richard Aitken (Chairperson)
- Richard Leggat
- Susan Macken (Deputy Chairperson)
- Mike Pohio
- David Kennedy
- Paul Majurey
- Martin Udale

Section H: Council-controlled organisations

Regional Facilities Auckland
An Auckland Council Organisation

Overview

Regional Facilities Auckland (RFA) is responsible for providing a regional approach to running and developing Auckland's arts, culture, heritage, leisure, sport and entertainment venues including ANZ Viaduct Events Centre, Aotea Centre, Aotea Square, Auckland Art Gallery Toi o Tāmaki, Auckland Town Hall, Auckland Zoo, Bruce Mason Centre, The Civic, Mt Smart Stadium, QBE Stadium, Queens Wharf, Western Springs Stadium and Maritime Museum.

Objectives and contribution to LTP

The objectives of RFA include:

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

These objectives shall be facilitated through RFA's management of assets and the funding decisions.

RFA is to recognise Government as a strategic partner and align with policy and funding for arts, culture, heritage and cultural institutions that is targeted at the regional level.

Activities

RFA's activities include the following:

- act as a regional voice for arts, culture, heritage, leisure, sports and entertainment issues
- advocate, co-ordinate and lead strategic thinking for investing in new collections and arts, cultural, heritage, leisure, sport and entertainment facilities for Auckland
- develop, with a regional perspective, a range of fit-for-purpose arts, cultural, heritage, leisure, sport, entertainment and events venues that are attractive to the residents and businesses of the region, and to its visitors
- plan for and implement regionally identified projects
- nurture region-wide arts, cultural and heritage activities and organisations
- secure Auckland-exclusive international musicals, rock concerts, sporting events and art exhibitions to drive out of town visitation and investment in Auckland's economy.

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

Directors

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

Section H: Council-controlled organisations

Watercare
An Auckland Council Organisation

Overview

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

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

Objectives and contribution to LTP

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

- building resilience to natural hazards;
- realising a compact city
- optimising, integrating and aligning water service provision and planning
- treasuring our coastline, harbours, islands and marine areas
- sustainably managing natural resources
- supporting rural settlements, living and communities
- improving the education, health and safety of Aucklanders
- growing a business friendly and well-functioning city
- enabling iwi to participate in the co-management of natural resources
- tackling climate change and increasing energy resilience.

Activities

Watercare's activities include:

- collection, treatment and distribution of drinking water to the people of Auckland
- collection, treatment and disposal of wastewater for the people of Auckland
- transfer, treatment and disposal of trade waste
- provision of laboratory services in support of Watercare's business activities and the business community.

For information on the above activities, actual performance, key performance targets and other measures set out in the LTP see the Water supply and wastewater treatment and disposal theme in Volume 1 of this Annual Report.

Directors

- Margaret Devlin (Chairperson)
- Brendan Green
- Julia Hoare (Deputy Chairperson)
- Catherine Harland
- Dr Nicki Crauford
- Dame Annette King
- David Thomas

Independent Auditor's Report

To the readers of Auckland Council's annual report for the year ended 30 June 2018

I am the auditor of Auckland Council and its subsidiaries and controlled entities (together referred to as the Group). I have used my staff and resources, and appointed auditors and their staff to report on the information in the Auckland Council's annual report that I am required to audit under the Local Government Act 2002 (the Act). I refer to this information as "the audited information" in my report.

I am also required to report on:

- whether Auckland Council and Group have complied with the requirements of Schedule 10 of the Act that apply to the annual report; and
- the completeness and accuracy of Auckland Council and Group's disclosures about its performance against benchmarks that are required by the Local Government (Financial Reporting and Prudence) Regulations 2014.

I refer to this information as "the disclosure requirements" in my report.

Opinion

Unmodified opinion on the audited information other than the statement of service performance

In my opinion:

- the financial statements in Volume 3 on pages 8 to 86 present fairly, in all material respects, the financial position of the Auckland Council and Group's as at 30 June 2018, and the financial performance and cash flows for the year then ended on that date, in accordance with Public Benefit Entity accounting standards;
- the funding impact statement in Volume 1 on page 35, presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the Auckland Council and Group's annual plan;
- the statement about capital expenditure for each group of activities in Volume 1 on pages 49 to 135, presents fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in the Auckland Council and Group's Long-Term plan;
- the funding impact statements for each group of activities in Volume 1 on pages 49 to 135, present fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the Auckland Council and Group's Long-Term plan; and
- the statements of service performance for local activities for each local board in Volume 2, sections 2.1 to 2.21 on pages 10 to 13 respectively, present fairly, in all material respects:
    - the activities for each local board for the year ended 30 June 2018, including the level of service achieved for the activities compared with the performance target or targets for those activities as set out in the local board agreement for the year; and
    - the reasons for any significant variation between the levels of service achieved and the intended levels of service.

Modified opinion on the statement of service performance – My work was limited in relation to building consent and non-notified resource consent processing time measures

The Auckland Council and Group in its Long-Term plan has included performance targets for its processing of building consent and non-notified resource consent applications. For both these types of applications, the Council's performance target is that 100% of these of applications will be processed by the Council within a 20-day statutory timeframe.[1]

The Council has reported its performance for the year ended 30 June 2018 on the timeliness of processing building consent applications in Volume 1 on pages 105 and 106 and non-notified resource consent applications in Volume 1 on pages 106 and 107. The Council has also explained how it has adjusted downwards the initial reported performance for these measures (from 68% to 52% for building consents and from 77% to 67% for non-notified resource consents), due to inaccurate recording of processing times identified from sample testing of consent information by the Council.

Due to the extent of the inaccuracies identified, I am unable to determine whether the Council's adjusted reported results for 30 June 2018 are materially correct for the building consent and non-notified resource consent processing time measures. As a result, my work was limited and there were no practical audit procedures my auditors could apply to obtain assurance over the reported results for building consent and non-notified resource consent processing times.

In my opinion, except for the matter explained above for the consent processing time measures, the statement of service performance in Volume 1 on pages 36 to 131:

- presents fairly, in all material respects, the levels of service for each group of activities for the year ended 30 June 2018, including:
  - the levels of service achieved compared with the intended levels of service and whether any intended changes to levels of service were achieved;
  - the reasons for any significant variation between the levels of service achieved and the intended levels of service; and
- complies with generally accepted accounting practice in New Zealand.

Report on the disclosure requirements

I report that the Auckland Council and the Group have:

- complied with the requirements of Schedule 10 of the Act that apply to the annual report; and
- made the disclosures about performance against benchmarks as required by the Local Government (Financial Reporting and Prudence Regulations 2014) in Volume 3 on pages 87 to 91, which represent a complete list of required disclosures and accurately reflects the information drawn from the Auckland Council and the Group's audited information and, where applicable, the Auckland Council Group's Long-Term plan and annual plans.

Basis for opinion on the audited information

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

I have fulfilled my responsibilities in accordance with the Auditor-General's Auditing Standards.

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

In addition to my audit and my report on the disclosure requirements, I have carried out an audit of the Auckland Council Group Long-Term Plan 2018-28 and a range of other assurance and consultancy engagements, which are compatible with those independence requirements. Other than the audit of the

[1] The statutory days exclude days where the applicant is providing further information or the processing end date has been extended.

Long-Term Plan and these engagements, and in exercising functions and powers under the Public Audit Act 2001, I have no relationship with or interests in Auckland Council or its subsidiaries and controlled entities.

Key audit matters

In addition to the matters discussed above in my qualified opinion on the statement of service performance, I have determined that the matters discussed below are key audit matters in relation to my audit for the year ended 30 June 2018.

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

Reporting performance on housing and transport	**How we addressed this matter**
Housing and transport are high-priority issues for the future and international reputation of Auckland. They affect the productivity, affordability, and future growth of Auckland and New Zealand. The Auckland Council and Group report performance information on housing and transport in the statement of service performance in Volume 1 on pages 36 to 131. The Auckland Council has been working with the Government to establish special housing areas to help address the city's housing shortage and increase the availability of affordable homes. The Auckland Council contributes to the resolution of the housing issues through: establishing the rules for development under the Unitary Plan; meeting the Council's obligations under the National Policy Statement – Urban Development which requires the Council and group to provide sufficient development capacity to meet demand for houses issuing building consents and code of compliance certificates; and working with developers to agree on the timely release of land for developments. The Auckland Council and Group play a key role in providing efficient and cost-effective transport around and through Auckland. Solutions to the current transport issues continue to evolve and include large projects requiring significant local and national funding over an extended period. I considered this a key audit matter because of the significance of these issues to Aucklanders,	We looked at the performance measures and the accompanying narrative about housing and transport performance in the statement of service performance. We identified the aspects of performance that we consider to be material to readers of the Auckland Council's annual report and focused our work on these aspects. This included material performance measures relevant to housing and transport. Our work included: testing the effectiveness of relevant internal controls; sample testing performance measures to supporting records; and where appropriate obtaining third-party confirmation of performance. Where information on the Auckland Council and Group's housing and transport activities was included in the annual report but outside the statement of service performance, we reviewed the information for consistency with the audited financial statements and statement of service performance, and our knowledge obtained in the audit of the Auckland Council and Group. This knowledge included information from: our review of relevant Auckland Council and Group reports, meeting minutes, and supporting evidence; discussions with governing bodies and management of the Auckland Council and Group; and discussions with other public sector agencies involved in Auckland matters.

and the importance of a balanced assessment of the Auckland Council and Group's performance.	
	Other than the matter discussed above in our modified opinion on the statement of service performance, I am satisfied that the information presented in the statement of service performance about housing and transport is reasonable, and reflects both the role and performance of the Auckland Council and Group in addressing the housing and transport issues identified.
Valuation of operational and infrastructure assets	How we addressed this matter
The Auckland Council and Group own a large portfolio of operational and infrastructure assets. As discussed in note B1 to the financial statements, in Volume 3 on pages 26 to 40, the Group had infrastructure assets of $31 billion, operational assets of $8.8 billion, and restricted assets of $6.8 billion at 30 June 2018. A number of assets are recorded at fair value with revaluations performed regularly or when the fair value is materially different to the carrying value. The reasonableness of the valuation depends on the completeness and accuracy of the underlying asset information and the appropriateness of the methodology and assumptions used. The valuation of infrastructure assets on a depreciated replacement cost basis is inherently complex. It involves using large and complex data sets, judging the condition and useful lives of components, and identifying appropriate replacement costs of components. Because of the large value of the assets held by the Auckland Council and Group, a small movement in the valuation or expected useful life of some components can have a significant effect on the depreciation expense recognised in the financial statements. The large, more complex, assets include: Water, wastewater, and stormwater, which account for 40% ($12,361 billion) of the Group's infrastructure. Many of these assets are below ground. This makes it difficult to verify the assets are in place, their condition, and their capacity for valuation purposes.	We asked about how the Auckland Council and Group determined that the recorded value for operational and infrastructure assets was not materially different from fair value at balance date. We assessed the Auckland Council and Group's evidence to support these assertions. For those assets that had been revalued, we read the valuation reports and discussed the approach to the valuation with the valuers. We obtained representations that the valuation approach was in keeping with accepted professional valuation standards. We assessed the valuers' expertise for the work and their objectivity. This included considering whether they had other engagements or relationships with the Auckland Council and Group. We confirmed our understanding of the valuation methodology and key assumptions and evaluated their reasonableness. We did this based on our experience and knowledge of other specialised operational and infrastructure valuations in the public sector. We obtained an understanding of how the valuer determined the age and condition of the assets, and how this was used to determine the remaining useful life of the assets and the valuation calculation for those assets valued on a depreciated replacement cost basis. We reviewed how the replacement costs of components have been determined. We confirmed the reasonableness of a sample of costs by reference to the Auckland Council and Group's relevant current capital works contracts.
Roads, which account for 32% ($9,922 billion) of the Group's infrastructure. The valuation is determined by separately valuing each of the various components. Some components cannot	We obtained an understanding of the source data used for the valuation. We reviewed the data for errors or omissions.

be physically inspected because they are beneath other layers. I considered the valuation of operational and infrastructure assets a key audit matter because of the significance of the amounts involved and the judgements applied.	We reviewed the overall valuation changes and sought explanations from the valuers for any significant or unusual changes in value. I am satisfied that the operational and infrastructure asset values in the Auckland Council and Group's financial statements are reasonable and supportable.
Valuation of derivatives	How we addressed this matter
The Auckland Council and Group use derivative financial instruments to mitigate risks associated with foreign currency and interest rate fluctuations. As discussed in Note C2 to the financial statements, in Volume 3 on pages 47 to 49, the Group reported derivative assets with a fair value of $289 million, and derivative liabilities with a fair value of $968 million at 30 June 2018. For the year ended 30 June 2018, as discussed in Note A6 in Volume 3 on page 23, there was a net gain on derivatives of $20 million recognised by the Group compared to a net gain of $237 million in the prior year. This is the result of the interest rate curves being less favourable and changes in foreign currency rates. I considered the valuation of derivatives a key audit matter because there is judgement needed, the values rely on certain assumptions, and the values are sensitive to small movements in interest rates and foreign exchange rates. These can have a significant effect on the value of the derivatives and the consequential gain or loss that is recognised in the financial statements.	We assessed the Auckland Council and Group's processes to record all derivatives, including their terms and conditions. We obtained independent confirmation that all the derivatives existed and were recorded, and that their terms and conditions were accurately recorded. We carried out audit procedures that were appropriate to the nature of the derivatives and the uncertainties associated with determining their fair value. These audit procedures included a mix of the following: We estimated the fair value of a sample of derivatives using our internal valuation model and compared this to the Auckland Council and Group's fair value. We engaged an external valuer to estimate the fair value of a sample of derivatives. We assessed the valuer's expertise and objectivity, and we considered the appropriateness of using the external valuer's work as audit evidence. We compared the estimated fair value obtained from our independent valuer to the Auckland Council and Group's fair value and to counterparty valuations. Where we identified a significant difference when comparing the different valuation sources, we investigated the cause of the difference and assessed this for reasonableness and effect on the overall value of derivatives. I am satisfied that the derivative valuations recognised in the Auckland Council and Group's financial statements are reasonable and supportable.
City Rail Link	**How we addressed this matter**
Following the Council and the Crown signing the Sponsors' agreement in June 2017 and the Settlement Agreement in September 2017, the	We considered the appropriateness of the accounting treatment used to recognise the transfer of assets to CRLL on 1 July 2017 and the

City Rail Link project transferred from Auckland Transport to City Rail Link Limited (CRLL). CRLL is recognised as a joint venture between Auckland Council and the Crown and is equity accounted into the Auckland Council and Group's 30 June 2018 results. At 30 June 2018 the Auckland Council's investment in CRLL was $307 million being 50% of the net assets of the City Rail Link. The maximum funding limit agreed by the Crown and Auckland Council is $3.6 billion. The Council's committed funding limit is $1.8 billion. I considered this a key audit matter because of the significance of this project to Auckland, the complex accounting judgements required, and the amounts involved.	recognition of the Auckland Council and Group's interest in CRLL on establishment. We considered whether Auckland Council's interest in CRLL was fairly stated in the Council and Group's 30 June 2018 financial statements, with a focus on: the disclosed funding committed by the Auckland Council for the City Rail Link project; ensuring CRLL project expenditure has been appropriately accounted for by Auckland Council; and ensuring all capital commitments have been appropriately disclosed. I am satisfied that the transactions relating to the City Rail Link and CRLL recognised in the Auckland Council and Group's financial statements are reasonable and supportable.
Valuation of the weathertightness provision	How we addressed this matter
The Auckland Council is legally obliged to pay its share of the costs to repair leaky homes. As discussed in note D5 to the financial statements, in Volume 3 on pages 56 to 59, the Auckland Council and Group recognised a provision of $319 million for the year ended 30 June 2018 an increase of $54 million since 30 June 2017. The Auckland Council's obligation extends to multi-unit dwellings as well as single homes. Multi-unit claims make up 88% of this provision. There are three different types of claims: Active claims have been lodged and are progressing through the resolution process. 64% of the provision relates to active claims. Reported claims have been lodged but are not yet progressing through the resolution process. 11% of the provision relates to reported claims Unreported claims have yet to be reported or identified but the Auckland Council could have a liability. This group of claims accounts for 25% of the provision. I considered the valuation of the weathertightness provision a key audit matter because the valuation of the provision, by an actuary, is complex and subject to a high degree of judgement and estimation. There is also inherent uncertainty about how many claims might be made and what they might cost. Because of the uncertainty, the Auckland Council	We read the actuary's valuation report and met with the actuary to understand: the valuation methodology and any changes from last year; the key inputs and assumptions and any changes from last year; and the reasons for valuation changes from last year. We assessed the actuary's expertise for completing the work and their objectivity, including whether they had any other engagements or relationships with the Auckland Council and Group. We assessed the valuation methodology and assumptions for compliance with the requirements of the applicable financial reporting standard, and for reasonableness. We did this based on our accumulated knowledge and experience of leaky home issues for Auckland Council and other councils. We re-assessed the accuracy of last year's estimates in light of the current year valuation as well as claim activity and settlements during the year. We reconciled active claims data to representations from the Auckland Council's lawyers. We made enquiries with the Auckland Council's in-house legal team and the actuary about any recent claims, court decisions, or changes in legislation that significantly affect the Auckland Council and Group's liabilities (for example, by increasing the scope or limitations period of claims).

and Group also disclose an unquantified contingent liability.	I am satisfied that the provision recognised in the Auckland Council and Group's financial statements for leaky homes is reasonable and supportable. I am also satisfied with the disclosure of an unquantified contingent liability for possible further liability not currently recognised.

Other Information

The Council is responsible for the other information included in the annual report. The other information comprises the information included in Volume 1 on pages 5 to 34, Volume 2, sections 2.1 to 2.21 on pages 4 to 9 and page 15 respectively and in Volume 3 on pages 4 to 7, pages 92 to 98 and pages 107 to 117, but does not include the audited information and the disclosure requirements.

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

My responsibility is to read the other information. In doing so, I consider whether the other information is materially inconsistent with the audited information and the disclosure requirements, or the knowledge obtained during my work, or otherwise appears to be materially misstated. If, based on my work, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the Council

The Council is responsible for meeting all legal requirements that apply to its annual report. The Council's responsibilities include the preparation and fair presentation of the financial statements of the Auckland Council and Group in accordance with Public Benefit Entity accounting standards.

The Council's responsibilities arise under the Local Government Act 2002, the Local Government (Financial Reporting and Prudence) Regulations 2014 and the Financial Markets Conduct Act 2013.

The Council is responsible for such internal control as it determines is necessary to enable it to prepare the information I audit that is free from material misstatement, whether due to fraud or error.

In preparing the information I audit the Council is responsible for assessing its ability to continue as a going concern. The Council is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to amalgamate or cease all of the functions of the Auckland Council and the Group or there is no realistic alternative but to do so.

Responsibilities of the auditor for the audited information

My objectives are to obtain reasonable assurance about whether the audited information, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of this audited information.

For the budget information reported in the audited information, my procedures were limited to checking that the budget information agreed to the Auckland Council and Group's Long-Term plan.

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

- I identify and assess the risks of material misstatement of the audited information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- I obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Auckland Council and Group's internal control.
- I evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council.
- I determine the appropriateness of the reported intended levels of service in the statement of service provision of the Auckland Council and Group and the statements of service performance for local activities for each local board, as a reasonable basis for assessing the levels of service achieved and reported.
- I conclude on the appropriateness of the use of the going concern basis of accounting by the Council and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast a significant doubt on the Auckland Council and Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the audited information or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause Auckland Council and Group to cease to continue as a going concern.
- I evaluate the overall presentation, structure and content of the audited information, including the disclosures, and whether the audited information represents, where applicable, the underlying transactions and events in a manner that achieves fair presentation.
- I obtain sufficient appropriate audit evidence regarding the entities or business activities within the Group to express an opinion on the consolidated audited information. I am responsible for the direction, supervision and performance of the Auckland Council and Group audit. I remain solely responsible for my audit opinion.

I communicate with the Council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the Council with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other mattes that may reasonably be thought bear on my independence, and where applicable, related safeguards.

From the matters communicated with the Council, I determine those matters that were most significance in my audit and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

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

Greg Schollum
Deputy Auditor-General
Wellington, New Zealand
27 September 2018

NZX and other exchange listing requirements

This section provides information on waivers granted by NZX and other exchange listings

Summary of waivers granted by NZX

For the purposes of NZX Listing Rule 10.4.5(f), Auckland Council (**Council**) discloses that, in the 12 month period preceding 30 June 2018, NZX has granted and published and Council has relied on the following waivers from Listing Rule 5.2.3:

- a waiver dated 15 March 2016 in respect of its issue of $250 million of fixed rate bonds (**AKC090 Bonds**). A further waiver in respect of the AKC090 Bonds was granted by NZX on 29 September 2016; and
- a waiver dated 9 May 2018 in respect of its issue of $200 million of fixed rate Green 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 March 2016, NZX granted Council a waiver from Listing Rule 5.2.3 with respect to the AKC090 Bonds to allow Council to have fewer than 100 bondholders who are members of the public holding at least 25% of the AKC090 Bonds on issue for a period of six months from the quotation date of its initial offer of new bonds. In September 2016, NZX granted a further waiver from Listing Rule 5.2.3 with respect to the AKC090 Bonds for a period of twelve months from 30 September 2016.

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

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

In 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 NZXR 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 these waivers from Listing Rule 5.2.3 is that the AKC090 Bonds and the AKC110 Bonds may not be widely held and there may be reduced liquidity in those bonds.

NZX and other exchange listing requirements

Spread of public bondholders at 10 August 2018

Holding range	Number of bondholders	Value held ($)	Percentage of bonds held
5,000 to 9,999	69	428,000	0.04
10,000 to 49,999	625	13,986,000	1.16
50,000 to 99,999	153	9,681,000	0.80
100,000 to 499,999	150	27,649,000	2.29
500,000 to 999,999	33	22,255,000	1.85
1,000,000 +	103	1,131,001,000	93.86
Total	**1,133**	**1,205,000,000**	**100.00**

Net tangible asset
Net tangible asset per $1,000 of listed bonds at 30 June 2018 is $31,734 (2017: $26,026). Bonds on issue are secured by a charge over all rates from time to time set or assessed by the council.

Other exchange listings
In addition to NZX, Auckland Council Group also has foreign bonds listed on Swiss Exchange and Singapore Stock Exchange.

The Swiss Exchange requires a summary of main differences between IFRS and PBE Accounting Standards to be provided. The key differences are highlighted on the following pages.

Main differences between IFRS and PBE Accounting Standards

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

The 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 2017). 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.

Service Concession Arrangements (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.

Main differences between IFRS and PBE Accounting Standards

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

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.

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 IPSAS 29 Financial Instruments: Recognition and Measurement).

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 IPSAS 29.

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.

Glossary

Activity	The goods or services the council provides.
Amortisation	The systematic allocation of the value of an intangible asset over its useful life.
Annual budget	The budget that sets out what the Group and the council will be working to achieve in a financial year, how it will spend its money, the level of service to be provided, and the level of rates and other revenue required to fund that spending.
Annual report	A document that tracks the Group and the council's annual performance and reports against the relevant annual budget.
Associates	Entities that the Group and/or the council have significant influence over. Our share of the associates' surplus/deficit and net assets is recorded in the Group and the council financial statements.
Auckland Council	The local government of Auckland established on 1 November 2010. The council is made up of the governing body, 21 local boards and the council organisation (operational staff).
Auckland Council Group	The Group consists of the council, and its subsidiaries, associates and joint ventures.
Auckland plan	A 30-year plan for Auckland. Required by the legislation that established Auckland Council, it is a comprehensive long-term strategy for Auckland's growth and development, and includes social, economic, environmental and cultural goals that support the vision for Auckland to become a world-class city.
Budget	The itemised formally adopted estimate of expected revenue and expenditure through LTP/Annual Budget for a given period.
Capital expenditure (capex)	Spending on buying or building new assets and renewing existing assets.
City Rail Link (CRL)	A rail project in central Auckland designed to connect the Britomart Transport Centre with the Western Line at Mount Eden Railway Station. The project is delivered by City Rail Link Limited (CRLL). Refer to note F3.
Council-controlled organisation (CCO)	A company or other entity under the control of local authorities through their shareholding of 50 per cent or more, voting rights of 50 per cent or more, or right to appoint 50 per cent or more of the directors. Some organisations may meet this definition but are exempted as CCOs.
Credit Support Annex (CSA)	An agreement which provides collateral for derivative transactions. The purpose is to reduce credit risk to a counterparty by providing security.
Depreciation	The charge representing consumption or use of an asset, assessed by spreading the asset's value over its estimated economic life. Depreciation includes amortisation of intangible assets unless otherwise stated.
Development contributions	Contributions from developers, collected by the council to help fund new infrastructure required by growth, as set out in the Local Government Act 2002.

Glossary (continued)

Effective interest method	A method of calculating the amortised cost of a financial instrument and of allocating the interest revenue or expense over the relevant period by using the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.
Fair value	Amount which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.
Financial Markets Conduct Act 2013 (FMCA 2013)	The Financial Markets Authority regulates capital markets and financial services in New Zealand. It is governed by the Financial Markets Conduct Act 2013, which promotes confident and informed participation of businesses, investors, and consumers in the financial markets; and promotes and facilitates the development of fair, efficient, and transparent financial markets.
Governing body	The governing body is made up of the mayor (elected city wide) and 20 councillors (elected on a ward basis). It shares its responsibility for decision-making with the local boards. It focuses on the big picture and on region-wide strategic decisions. Because each ward may vary in population, some wards have more than one councillor.
Grants and subsidies	Revenue received from an external agency to help fund an activity or service that the Group and/or the council provide.
Green bonds	Bonds issued to finance projects or assets that deliver positive environmental outcomes or refinance corporate debt that supports these projects or assets.
Green bond framework	The document which outlines how the council proposes to issue and manage its green bonds on an ongoing basis.
Infrastructure growth charge	Amount collected by Watercare from property owners or developers applying for new connections to help fund new infrastructure required by growth.
Joint ventures	Contractual arrangements whereby the council or Group undertakes an economic activity that is subject to joint control or an interest in an entity with an external party.
Legacy councils	The eight former territorial authorities in the Auckland region that were disestablished on 31 October 2010. They comprise Auckland City Council, Auckland Regional Council, Franklin District Council, Manukau City Council, North Shore City Council, Papakura District Council, Rodney District Council and Waitakere City Council.
Local boards	Local boards represent their local communities and make decisions on local issues, activities and facilities. There are 21 local boards which share responsibility for decision-making with the governing body. Each board comprises between five and nine elected members. They make decisions on local matters, provide local leadership and build strong local communities.
Local Government Act 2002 (LGA 2002)	The act that defines the powers and responsibilities of territorial local authorities such as the council.
Local Government (Auckland Council) Act 2009 (LGACA 2009)	The act establishes the council as a unitary authority for Auckland; and sets out its structure, functions, duties, and powers that differ from the general provisions applying to local authorities under the Local Government Act 2002 and certain other enactments. Also determines the management of transport and water supply and wastewater services for Auckland and sets out requirements relating to substantive council-controlled organisations.

Glossary (continued)

Local Government (Financial Reporting and Prudence) Regulations 2014	Regulations promoting prudent financial management by local authorities requiring disclosure of performance in relation to benchmarks as a single entity and not including subsidiaries. Auckland Council must disclose, in its disclosure statements, its performance and that of its subsidiaries as a single entity.
Local Government (Rating) Act 2002 (LGRA)	Defines how territorial local authorities such as Auckland Council can set, assess and collect rates.
Local Government Funding Agency (LGFA)	An organisation jointly owned by most local authorities in New Zealand and the Crown to borrow on behalf of the sector.
Long-term plan	Also commonly referred to as the LTP and the 10-year budget. This sets out the council's vision, activities, projects, policies, and budgets for a 10-year period.
Operating expenses	Expenditure resulting from normal business operations.
Optimised replacement cost	A valuation method used to estimate the price of constructing or buying a modern equivalent asset.
Rates	A charge against the property to help fund services and assets the council provides.
Service concession arrangement	A binding arrangement between grantor and operator in which, • the operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and • the operator is compensated for its services over the period of the service concession arrangement.
Service concession assets	Assets used to provide public services in a service concession arrangement.
Subsidiaries	Entities over which the council and group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.
Ward	An administrative and electoral area of the council. There are 13 in the council's area.
Water space licence	Water space around Wynyard Quarter subject to a coastal permit which is held by the Group for rental return and/or capital growth.

This page is intentionally left blank.

This page is intentionally left blank.

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

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

THIS IMAGE: **Into the underworld**

A picture speaks a thousand words, and digital mapping speaks millions when it comes to our lava tubes.

Last year, eerie images showed us 10 lava caves under the Auckland isthmus.

Over two years, artist Chirag Jindal and speleologist Peter Crossley walked a $100,000 3D scanner into each cave to create digital images of what lies beneath our houses and feet.

For some, a door on their property leads to a cave, but for the most part, they're unseen. Chirag and Peter wanted to ensure the caves, some of which are over 40,000 years old, were not lost.

"We're the only region in New Zealand, and one of the only places in the world, with lava caves like these beneath its surface," says Chirag

"These images are the first archived drawings of these caves, establishing their unique heritage and identity within our broader landscape," says Chirag. An exhibition included artistic and scientific plans, sections, animations, text, short films and 3D prints of some of the most prominent caves in the isthmus. The council is committed to preserving our heritage and provided Chirag and Peter with a range of grants regionally and through the Albert-Eden, Puketāpapa and Maungakiekie-Tāmaki Local Boards.

Image: Chirag Jindal and Peter Crossley.

ON THE BACK COVER: **Kowhatukiteuru of Te Kawerau a Maki, Matariki Festival 2018 host iwi. Matariki ki tua a ngā whetū / Matariki beyond the stars and into the heavens.**

ISSN: 2253-1335 (Print)
ISSN: 2253-1343 (Online, PDF)

Matariki ki tua
o ngā whetū

Te Kaunihera o
Tāmaki Makaurau
Auckland Council