

Auckland Council Group Interim Report

31 December 2015

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Message from the mayor and chief executive

Aucklanders should be pleased with what Auckland Council Group has achieved in this period.

As the number of Aucklanders increases at an unprecedented rate of around 800 new people a week, housing, transport and infrastructure continue to be where our effort and investment is focused. While growth is important, we are also mindful of balancing our progress with affordability for ratepayers.

We continue to be proud of our robust financial management, which, over the period, saw Standard and Poor's affirm our AA/A-1+ credit rating and Moody's affirm our Aa2 stable credit rating.

In December, preliminary work for the City Rail Link started with a dawn blessing of the work site by mana whenua. In January, the Government confirmed its support for the project which will see completion of the link by 2022. Train patronage is already surging as a result of electrification of the network, the introduction of our fleet of new trains and new timetables. Aucklanders are now taking more than 15 million trips a year on our suburban train network, with annual growth in patronage of more than 20 per cent.

Aucklanders are also taking to their cycleways. The first phase of the Nelson Street Cycleway, 'Te Ara I Whiti', opened in December and construction of phase two from Victoria Street West to Quay Street is underway.

We have continued our work with the Government in helping to accelerate Auckland's housing supply, with 118 Special Housing Areas, an increase of 34 in the past six months. This will contribute to the delivery of about 52,000 homes over the next 15-20 years.

Reinforcing the council's commitment to rejuvenating Auckland, Panuku Development Auckland was established on 1 September 2015 and has identified 19 locations cross Auckland as priorities for development. Approved as the flagship projects, Manukau and Onehunga will undergo transformations similar in scale to the award-winning regeneration of the Wynyard Quarter.

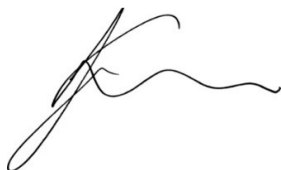
Across Auckland, our communities have celebrated new facilities, including:

- Ōtāhuhu's new recreational precinct, Tōia which includes pools, a library, outdoor play space and an indoor recreation centre opened its doors to the public in August.
- A major revamp of the Mount Albert Aquatic Centre.
- Onehunga foreshore opened in November, creating enduring public access to the Manukau Harbour and providing a number of new facilities and recreation areas within walking distance of the Onehunga town centre.
- Waterview Reserve opened, which includes a colourful and fun recreational playground for children.

Aucklanders have continued to enjoy events of all sizes across Auckland from the NRL Nines and our new Maori events, Tamaki Herenga Waka to Pride Festival, Ambury Farm Day, Parnell Festival of Roses, Sculpture in the Gardens at the Botanic Gardens and the Heritage Festival. Opening hours for many libraries have changed including several libraries opening on Sunday for the first time.

And our work is not done. As we move forward, we continue to ask Aucklanders for their views. We encourage all Aucklanders to participate in our annual budget consultation and share their views. It's crucial for us to make the best decisions for Auckland's future.

Lastly, we would like to acknowledge our staff and elected representatives, who work so hard to balance delivering great development and services for Aucklanders, with sound financial stewardship.



Len Brown
Mayor of Auckland



Stephen Town
Chief Executive
Auckland Council

29 February 2016

29 February 2016

Financial commentary

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

Comparison of results to the six months ending 31 December 2014

Total revenue excluding other gains has increased by \$146 million or 5.9% from the same period last year. This is largely due to:

- an increase in general rates revenue of \$47 million and water/wastewater charge of \$15 million as planned in the published long-term plan;
- targeted transport levy of \$61 million to fund additional infrastructure;
- higher public transport revenue of \$7 million due to strong patronage growth;
- higher consents revenue and development contributions of \$23 million due to strong growth in new housing development; and

The above is partially offset by the unfavourable market performance of our investment portfolio, including the diversified financial asset portfolio.

Total expenditure excluding other losses has increased by \$10 million or 1%. Depreciation and amortisation expenses are up \$24 million from the same period last year as a result of capitalisation of property, plant and equipment over the last twelve months. This is partially offset by the reduction in other operating expenses of \$17 million.

Overall the Group generated an operating surplus before gains and losses of \$948 million, an increase of \$136 million against the same period last year.

Net other losses of \$87 million are predominantly driven by the reduction in fair value of financial instruments, resulting from falling interest rates. The Group continues to actively manage its interest rate exposure to provide certainty over the Group's interest costs in the medium and long term.

Comparison to statement of financial position at 30 June 2015

The total Group net assets increased by \$880 million from 30 June 2015. The principal contributors include:

- increase in receivables of \$719 million predominantly due to timing of receipt of rates from rate payers;
- net investment in property, plant and equipment of \$257 million;
- partially offset by the decrease in fair value of derivative financial instruments of \$159 million; and
- increase in borrowings of \$76 million or 1%.

During the last six months the Group has invested \$556 million to expand and renew community and infrastructure assets. These were funded by operating cash surpluses of \$437 million and the balance from borrowings. The Group continues to manage its debt portfolio prudently and in accordance with its long-term plan.

Statement of comprehensive revenue and expenditure

For the six months ended 31 December 2015

\$million	Note	Unaudited 6 months to 31 Dec 15	Unaudited 6 months to 31 Dec 14	Audited 12 months to 30 Jun 15
Revenue				
Rates		1,565	1,456	1,458
Fees and user charges		551	520	1,030
Grants and subsidies		200	185	425
Development and financial contributions		68	55	107
Other revenue		249	269	521
Finance revenue		7	9	17
Total revenue excluding other gains	2	2,640	2,494	3,558
Expenditure				
Employee benefits		398	394	792
Depreciation and amortisation		402	378	778
Grants, contributions and sponsorship		94	94	150
Other operating expenses		588	605	1,336
Finance costs		210	211	422
Total expenditure excluding other losses		1,692	1,682	3,478
Operating surplus before gains and losses		948	812	80
Net other gains/(losses)	3	(87)	(207)	(230)
Share of surplus in associates and joint ventures		28	22	54
Surplus/(deficit) before income tax		889	627	(96)
Income tax expense/(benefit)		9	(11)	(24)
Surplus/(deficit) after income tax		880	638	(72)
Surplus/(deficit) after income tax is attributable to:				
Ratepayers of Auckland		880	638	(72)
Other comprehensive revenue/(expenditure)				
Net gain on revaluation of property, plant and equipment		-	-	1,031
Tax on revaluation of property, plant and equipment		-	-	(74)
Movement in cash flow hedge reserve		-	26	37
Tax on movement in cash flow hedges		-	1	1
Share of associates and joint ventures' reserves		-	(3)	16
Net unrealised gains/(losses) on revaluation of financial assets classified as available-for-sale		-	(3)	(1)
Total other comprehensive revenue/(expenditure)		-	21	1,010
Total comprehensive revenue/(expenditure)		880	659	938
Total comprehensive revenue is attributable to:				
Ratepayers of Auckland		880	659	938

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

Statement of financial position

As at 31 December 2015

\$million	Note	Unaudited As at 31 Dec 15	Unaudited As at 31 Dec 14	Audited As at 30 Jun 15
ASSETS				
Current assets				
Cash and cash equivalents		269	461	345
Receivables and prepayments	2	975	928	258
Other financial assets		369	341	350
Derivative financial instruments	4	2	-	2
Inventories		24	17	16
Tax receivables		-	-	14
Non-current assets held-for-sale		27	41	28
Total current assets		1,666	1,788	1,013
Non-current assets				
Receivables and prepayments	2	27	104	25
Other financial assets		114	111	111
Derivative financial instruments	4	163	48	200
Property, plant and equipment		39,154	37,325	38,897
Intangible assets		488	510	469
Biological assets		2	2	2
Investment property		571	467	560
Investment in associates and joint ventures		899	845	890
Total non-current assets		41,418	39,412	41,154
Total assets		43,084	41,200	42,167
LIABILITIES				
Current liabilities				
Bank overdraft		5	5	8
Employee entitlements		87	83	85
Payables and accruals		497	505	649
Borrowings		880	1,118	1,006
Derivative financial instruments	4	34	14	2
Tax payable		-	3	-
Provisions		97	64	88
Total current liabilities		1,600	1,792	1,838
Non-current liabilities				
Employee entitlements		5	5	5
Payables and accruals		43	30	45
Borrowings		6,530	5,866	6,328
Derivative financial instruments	4	575	408	485
Provisions		295	299	320
Deferred tax liabilities		1,077	996	1,067
Total non-current liabilities		8,525	7,604	8,250
Total liabilities		10,125	9,396	10,088
Net assets		32,959	31,804	32,079
EQUITY				
Contributed capital		26,728	26,734	26,728
Accumulated funds		1,404	1,230	517
Reserves		4,827	3,840	4,834
Total equity		32,959	31,804	32,079

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

Statement of changes in equity

For the six months ended 31 December 2015

1 July 2015 to 31 December 2015				
Unaudited \$million	Contributed capital	Accumulated funds	Reserves	Total equity
Balance as at 1 July 2015	26,728	517	4,834	32,079
Surplus after income tax	-	880	-	880
Other comprehensive revenue/(expenditure)	-	-	-	-
Total comprehensive revenue/(expenditure)	-	880	-	880
Transfers to/(from) reserves	-	7	(7)	-
Balance as at 31 December 2015	26,728	1,404	4,827	32,959

1 July 2014 to 31 December 2014				
Unaudited \$million	Contributed capital	Accumulated funds	Reserves	Total equity
Balance as at 1 July 2014	26,734	586	3,825	31,145
Surplus after income tax	-	638	-	638
Other comprehensive revenue/(expenditure)	-	-	21	21
Total comprehensive revenue/(expenditure)	-	638	21	659
Transfers to/(from) reserves	-	6	(6)	-
Balance as at 31 December 2014	26,734	1,230	3,840	31,804

1 July 2014 to 30 June 2015				
Audited \$million	Contributed capital	Accumulated funds	Reserves	Total equity
Balance as at 1 July 2014	26,734	586	3,825	31,145
Surplus after income tax	-	(72)	-	(72)
Other comprehensive revenue/(expenditure)	-	-	1,010	1,010
Total comprehensive (expenditure)/revenue	-	(72)	1,010	938
Deconsolidation of subsidiaries	(6)	(17)	-	(23)
Found Asset	-	19	-	19
Transfers to/(from) reserves	-	1	(1)	-
Balance as at 30 June 2015	26,728	517	4,834	32,079

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

Statement of cash flows

For the six months ended 31 December 2015

\$million	Note	Unaudited 6 months to 31 Dec 15	Unaudited 6 months to 31 Dec 14	Audited 12 months to 30 Jun 15
Cash flows from operating activities				
Receipts from customers, rates, grants and other services		1,699	1,608	3,247
Interest received		6	9	19
Dividends received		35	29	63
Payments to suppliers and employees		(1,085)	(1,149)	(2,212)
Interest paid		(218)	(195)	(391)
Net cash inflow from operating activities	7	437	302	726
Cash flows from investing activities				
Sale of property, plant and equipment, investment property and intangible assets		9	10	33
Purchase of property, plant and equipment, investment property and intangible assets		(644)	(751)	(1,490)
Acquisition of other financial assets		(39)	(13)	(7)
Proceeds from sale of other financial assets		57	43	23
Advances to external parties		(15)	(4)	(4)
Net cash outflow from investing activities		(632)	(715)	(1,445)
Cash flows from financing activities				
Proceeds from borrowings		952	1,149	2,797
Repayment of borrowings*		(830)	(482)	(1,943)
Net cash inflow from financing activities		122	667	854
Net increase in cash and cash equivalents and bank overdraft		(73)	254	135
Opening cash and cash equivalents and bank overdraft		337	202	202
Closing cash and cash equivalents and bank overdraft		264	456	337

* Commercial paper funding is presented net within repayment of borrowings.

Notes to the financial statements (unaudited)

1 Statement of significant accounting policies

REPORTING ENTITIES

Auckland Council is a local authority domiciled in New Zealand and governed by the Local Government Act 2002, the Local Government (Auckland Council) Act 2009 and the Local Government (Rating) Act 2002. Auckland Council's principal address is 135 Albert Street, Auckland Central, New Zealand.

The Auckland Council Group (the Group) consists of Auckland Council, its controlled entities, associates and joint ventures. All entities are domiciled in New Zealand. The substantive CCOs of the group comprise of:

- Auckland Transport
- Auckland Tourism, Events and Economic Development
- Regional Facilities Auckland
- Development Auckland Ltd (formerly Auckland Waterfront Development Agency Ltd & Auckland Council Property Ltd)
- Auckland Council Investments Ltd
- Watercare Services Ltd

On 1 September 2015 100% owned council controlled organisations Auckland Waterfront Development Agency Ltd and Auckland Council Property Limited were merged to form Development Auckland Limited (trading as Panuku Development Auckland). There were no changes to the scope of services provided and no material financial impact resulting from the amalgamation.

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

Statement of compliance

These interim financial statements are for the six months ended 31 December 2015 and have been prepared for the Group only and are to be read in conjunction with the annual report for the year ended 30 June 2015. They are prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and they comply with PBE IAS 34 *Interim Financial Reporting*. The financial results for the six month period ended 31 December 2015 are unaudited however they have been subject to a review by the auditors, pursuant to the New Zealand Standard on Review Engagements 2410.

BASIS OF PREPARATION

The interim financial statements have been prepared on a going concern basis and the accounting policies applied are consistent with those used at 30 June 2015.

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

Accounting judgments, estimates and assumptions

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2015.

Notes to the financial statements (unaudited)

2 Exchange and non-exchange transactions

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

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

Revenue

\$million	6 months to 31 Dec 15	6 months to 31 Dec 14	12 months to 30 Jun 15
Revenue from non-exchange transactions			
Revenue from rates			
General	1,390	1,343	1,343
Targeted	172	108	105
Penalties	9	10	17
Rates remissions	(3)	(3)	(5)
Discounts	(3)	(2)	(2)
Total revenue from rates	1,565	1,456	1,458
Revenue from transfers			
Sale of goods and services	119	81	166
Vested assets	130	132	268
Fines and infringements	17	18	35
Consents, licences and permits	88	78	138
Grants and subsidies	200	185	425
Other transfer revenue	19	41	61
Total revenue from transfers	573	535	1,093
Total revenue from non-exchange transactions	2,138	1,991	2,551
Revenue from exchange transactions			
Water and wastewater	220	205	418
Sales of goods and services	4	31	59
Port operations	103	106	213
Development and financial contributions	68	55	107
Finance revenue	7	9	16
Dividends received	14	10	20
Other exchange revenue	86	87	174
Total revenue from exchange transactions	502	503	1,007
Total revenue	2,640	2,494	3,558

Receivables and prepayments

\$million	As at 31 Dec 15	As at 31 Dec 14	As at 30 Jun 15
Current			
Recoverables from non-exchange transactions	820	764	125
Receivables from exchange transactions	155	164	133
Total current receivables and prepayments	975	928	258
Non-current			
Recoverables from non-exchange transactions	7	55	6
Receivables from exchange transactions	20	49	19
Total non-current receivables and prepayments	27	104	25

Notes to the financial statements (unaudited)

3 Net other gains/(losses)

\$million	6 months to 31 Dec 15	6 months to 31 Dec 14	12 months to 30 Jun 15
Reversal of previously recognised impairment	-	-	1
Net (decrease)/increase in fair value of investment property	(4)	(1)	61
Net decrease in financial assets held at fair value through surplus/deficit*	(155)	(218)	(141)
Net foreign exchange gains/(losses) recognised in surplus/deficit on financial instruments held at amortised cost	80	23	(138)
Net loss on disposal of property, plant and equipment and intangible assets	(8)	(11)	(13)
Total net other gains/(losses)	(87)	(207)	(230)

* These relate to fair value movements in interest rate derivatives and cross currency interest rate swaps.

4 Derivative financial instruments

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

\$million	Notional			Fair Value		
	As at 31 Dec 15	As at 31 Dec 14	As at 30 Jun 15	As at 31-Dec-15	As at 31 Dec 14	As at 30-Jun-15
Derivative assets						
Interest rate swaps						
Cash flow hedge	-	25	-	-	-	-
Fair value through surplus/deficit	1,560	1,449	1,314	26	15	24
Forward foreign currency contracts						
Cash flow hedge	12	-	31	-	-	1
Fair value through surplus/deficit	4	3	3	-	-	-
Cross currency interest rate swaps						
Fair value through surplus/deficit	-	796	821	139	33	177
Total derivative assets	1,576	2,273	2,169	165	48	202
Derivative liabilities						
Interest rate swaps						
Cash flow hedge	210	195	260	7	4	7
Fair value through surplus/deficit	7,859	7,049	7,235	539	358	460
Forward foreign currency contracts						
Cash flow hedge	3	130	3	-	13	-
Fair value through surplus/deficit	4	-	-	-	-	-
Cross currency interest rate swaps						
Fair value through surplus/deficit	1,543	559	535	63	47	20
Total derivative liabilities	9,619	7,933	8,033	609	422	487

Notes to the financial statements (unaudited)

5 Property, plant and equipment

\$million	6 months to 31 Dec 15	6 months to 31 Dec 14	12 months to 30 Jun 15
Additions	650	801	1,676
Net (Disposals) and transfers to non-current assets held-for-sale	(26)	(33)	14
Capital commitments	943	1,087	884

There have been no material changes in fair value for all property, plant and equipment asset classes between 30 June 2015 and 31 December 2015.

6 Investment in other entities

There have been no material changes in the Group's investments in associates and joint ventures during the six months to 31 December 2015.

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

\$million	6 months to 31 Dec 15	6 months to 31 Dec 14	12 months to 30 Jun 15
Surplus/(deficit) after income tax	880	638	(72)
Add/(less) non-cash items:			
Depreciation and amortisation	402	378	778
Net unrealised decrease in financial assets/liabilities held at fair value through surplus/deficit	75	195	278
Net loss on disposal of property, plant and equipment and intangible assets	8	-	14
Vested assets	(130)	(132)	(276)
Share of (surplus)/deficit in associates and jointly-controlled entities (net of dividends)	(7)	(2)	(14)
Net (increase)/decrease in fair value of investment property	4	1	(61)
Time value adjustments	7	10	16
Impairment of property, plant and equipment, receivables and other assets	-	8	26
Other non-cash items	(1)	(6)	-
Reversal of previously recognised impairment	-	-	(1)
Other movements:			
Less items classified as investing or financing activities	(13)	(33)	(52)
Less deferrals and accruals	(788)	(755)	90
Net cash inflow from operating activities	437	302	726

Notes to the financial statements (unaudited)

8 Treasury management

\$million	As at 31 Dec 15	As at 31 Dec 14	As at 30 Jun 15
Borrowings	7,410	6,984	7,334
Add bank overdraft	5	5	8
Less cash and cash equivalents	(269)	(461)	(345)
Total borrowings and bank overdraft less cash and cash equivalents	7,146	6,528	6,997

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

Debt Maturity	As at 31 Dec 15	As at 31 Dec 14	As at 30 Jun 15
< 3 years	32%	42%	32%
3-6 years	24%	19%	27%
6-10 years	23%	21%	19%
> 10 years	21%	18%	22%
Total	100%	100%	100%

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

On 21 September 2015, \$125 million of redeemable preference shares issued by Airport Shares (Manukau) Ltd, a subsidiary of Auckland Council Investments Ltd, were redeemed by Auckland Council.

There were no defaults or breaches on any borrowing arrangement during the period (31 December 2014: nil; 30 June 2015: nil).

9 Provisions

There have been no material changes in provisions between 30 June 2015 and 31 December 2015.

10 Contingencies

The Wynyard Quarter investment property includes land that has been contaminated and requires remediation. Auckland Waterfront Development Agency Ltd, now Development Auckland Ltd (trading as Panuku Development Auckland) took court action against a previous tenant to enforce their remediation obligations under their lease. In February 2014, the court ruled in favour of the previous tenant and ordered Panuku Development Auckland (Panuku) to pay costs of \$930k to the previous tenant. Panuku appealed the decision and was heard in May 2015. The Court of Appeal reversed the ruling, awarding a \$10 million judgement to Panuku which was paid by the tenant and recognised as revenue in this financial period. On 17 September 2015, the previous tenant applied for leave to appeal to the Supreme Court, if Panuku loses on appeal we will have to repay the \$10 million.

The council is a shareholder and guarantor of the Local Government Funding Agency (LGFA). During the six months ended 31 December 2015, the Group's cross-guarantee on LGFA's other borrowings has increased by \$628 million to \$3.9 billion. The Group considers the risk of the LGFA defaulting on repayment of interest or capital to be very low.

There have been no other material changes in contingencies between 30 June 2015 and 31 December 2015, including the Group's estimated obligation for weathertightness claims.

11 Related parties

There have been no significant related party transactions that were not on an arm's length basis between 1 July 2015 and 31 December 2015.

12 Net tangible assets

Net tangible assets per \$1,000 of listed bonds at 31 December 2015 is \$35,105 (31 December 2014: \$27,923).

13 Events after the reporting period

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



Independent Auditor's Report

To the readers of Auckland Council Group's Interim Financial Statements for the six months ended 31 December 2015

I am the auditor of Auckland Council (the Council) and its subsidiaries (together, the Auckland Council Group). I have used my staff and resources and appointed auditors and their staff to carry out a review of the Auckland Council Group's interim financial statements for the six months ended 31 December 2015.

I have reviewed the interim financial statements of the Auckland Council Group on pages 4 to 12 that comprise the statement of financial position as at 31 December 2015, the statement of comprehensive revenue and expenditure, statement of changes in equity, and statement of cash flows for the six months ended on that date, and the notes to the interim financial statements. This information is stated in accordance with the accounting policies set out on page 8.

Unqualified review opinion

Based on my review, which is not an audit, nothing has come to my attention that causes me to believe that the Auckland Council Group's interim financial statements on pages 4 to 12 do not:

- comply with generally accepted accounting practice in New Zealand; and/or
- fairly reflect, in accordance with PBE IAS 34: *Interim Financial Reporting*:
 - Auckland Council Group's financial position as at 31 December 2015; and
 - the results of its operations and cash flows for the six months ended on that date.

My review was completed on 29 February 2016. This is the date at which my review opinion is expressed.

The basis of my review report is explained below. In addition, we outline the responsibilities of the Council and my role as reviewer, and explain my independence.

Basis of the review opinion

I carried out the review in accordance with NZ SRE 2410: *Review of Financial Statements Performed by the Independent Auditor of the Entity* issued by the External Reporting Board.

A review is limited primarily to enquiries of the Council's personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. I have not performed an audit and, accordingly, I do not express an audit opinion. Also, I did not evaluate the security and controls over the electronic publication of the interim financial statements.

The Council's responsibilities and my role as reviewer

The Council is responsible for preparing interim financial statements, in accordance with New Zealand law and generally accepted accounting practice, including PBE IAS 34: *Interim Financial Reporting*, which fairly reflect the financial position of the Auckland Council Group as at 31 December 2015 and the results of operations and cash flows for the six months ended on that date. The Council is also responsible for the publication of the interim financial statements, whether in printed or electronic form.

I am responsible for reviewing the interim financial statements presented by the Council in order to provide to you whether, in my opinion and on the basis of the procedures performed by my staff and appointed auditors and their staff, anything that has come to my attention that would indicate the interim financial statements do not:

- comply with generally accepted accounting practice; or
- fairly reflect the Auckland Council Group's financial position as at 31 December 2015 and the results of operations and cash flows for the six months ended on that date.

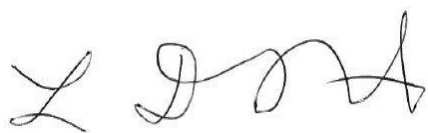
Independence

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

In addition to this review, I have carried out the following:

- the audit of the Council and the Auckland Council Group's financial statements, Auckland Council Group's activity statements, other information and local board reports contained in its annual report for the year ended 30 June 2015; and
- an assurance assignment in respect of information provided by the Council and Auckland Council Group as required by the terms of its foreign borrowings programme.

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



Lyn Provost
Auditor-General
Wellington, New Zealand

Summary of Waivers Granted by NZX Limited

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

- Listing Rule 5.1.2(j) (decision published by NZX on 26 August 2010);
- Listing Rule 6.3.2 and 11.1.1 (decision published by NZX on 10 December 2012);
- Listing Rule 5.2.3 (decision published on 12 March 2015);
- Listing Rule 5.2.3 (decision published by NZX on 9 March 2015);
- Listing Rule 10.4.1(b) and 10.4.4 (decision published by NZX on 3 October 2014); and
- Listing Rule 3.2.1(d) (decision published by NZX on 3 March 2015).

Listing Rule 5.2.3

This waiver allows the group to have fewer than 500 bondholders for a period of one year from the quotation date of its initial offer of bonds (which are part of a series of bond offers under its bond programme). NZX considered the waiver appropriate given disclosure in the offer documentation and that debt securities are not subject to the same degree of trading activity as equity securities. The March 2014 waiver was extended in March 2015 for a further 12 months.

On 29 September 2015, NZX released a decision that for Rule 5.2.3, generally a Class of Debt Securities will not be considered for Quotation on the NZDX unless those Securities are 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. Provided Auckland Council continues to maintain the requirements, Auckland Council will no longer need to apply for the waiver under Rule 5.2.3.

For details of other waivers, please refer to the 30 June 2015 annual report.

Other exchange listings

In addition to NZX, Auckland Council Group also has foreign bonds listed on the following exchanges:

- Swiss Exchange
- Singapore Stock Exchange

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

Main differences between IFRS and PBE Accounting Standards

Introduction

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

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

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

Set out below are the key differences in recognition and measurement between PBE Accounting Standards applicable to the Group and IFRS (applicable to annual periods beginning on or after 1 July 2015). Differences that impact only on presentation and disclosure have not been identified.

Formation of Auckland Council Group

PBE Accounting Standards

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 dissolution of the predecessor local authorities into the Group would have been accounted for as a business combination under IFRS 3 applying the acquisition method. Under the acquisition method, an acquirer would have been identified and all of the identifiable assets and liabilities of the acquired predecessor local authorities assumed by the acquirer would have been recognised at fair value as at the date of acquisition.

Impact

The impact of the above accounting treatment of the 2010 local authority reorganisation is that the carrying value of the assets and liabilities received as part of the reorganisation were not re-measured to fair value and no additional assets and liabilities such as goodwill and contingent liabilities were recognised as would have been required if the transaction is accounted for as a business combination under IFRS 3.

Main differences between IFRS and PBE Accounting Standards (continued)

PBE Accounting Standards that have no IFRS equivalent

Revenue from non-exchange transactions

PBE Accounting Standards

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

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

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

IFRS

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

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 (Public Private Partnership Arrangements)

PBE Accounting Standards

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) and NZ practice has been for the grantor (public entity) to 'mirror' the accounting treatment of the private entity.

Main differences between IFRS and PBE Accounting Standards (continued)

PBE Accounting Standards that have no IFRS equivalent (continued)

Service Concession Arrangements (Public Private Partnership Arrangements) (continued)

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, 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.

PBE Accounting Standards with comparable IFRS equivalent

Property, Plant and Equipment

PBE Accounting Standards

Under 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 revaluation decreases to be recognised in operating surplus except to the extent there is sufficient asset revaluation reserves surplus relating to the same asset.

Impact

This could result in lower operating results under IFRS where there is a decrease in the carrying value of an asset. This is because, to the extent that there is sufficient revaluation surplus in respect of the same asset class (as opposed to the same asset), the Group recognises a revaluation decrease in asset revaluation reserves.

Borrowing Costs

PBE Accounting Standards

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 PBE IPSAS 5 "as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale". The Group's accounting policy is to expense all borrowing costs. As a consequence, borrowing costs on qualifying assets are expensed and are not built into the original costs or revaluations of physical assets.

IFRS

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

Impact

This difference between the Group's accounting policy to expense all borrowing costs under PBE IPSAS 5 and the IAS 23 requirement to capitalise all borrowing costs results in the Group's property, plant and equipment value, and subsequent depreciation expense, being lower than those would be under IFRS. In addition, there is higher interest expense in the periods in which construction costs on qualifying assets are incurred.

Main differences between IFRS and PBE Accounting Standards (continued)

PBE Accounting Standards with comparable IFRS equivalent (continued)

Impairment of Assets

PBE Accounting Standards

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

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

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

IFRS

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 which might not be impaired under PBE Accounting Standards might be impaired under IFRS due to limited generation of cash flows. The Group asset values may therefore be higher than under IFRS because some impairments may not be required under PBE Accounting Standards when impairment would be recognised under IFRS.

The use of different methods may result in differences in the amount of value in use.

The fact that property, plant and equipment measured at fair value is not required to be reviewed and tested for impairment under the PBE Accounting Standards has no significant impact because these assets are subject to sufficiently regular revaluations to ensure that their carrying amount does not differ materially from fair value.

PBE Accounting Standards where the IFRS equivalent is not comparable

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

Consolidated Financial Statements

PBE Accounting Standards

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

IFRS

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

Main differences between IFRS and PBE Accounting Standards (continued)

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

Consolidated Financial Statements (continued)

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 Accounting Standards

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 Accounting Standards

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 Accounting Standards

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 defined benefit obligations and therefore there is no impact on its financial performance and financial position.