

VOLUME 3: FINANCIAL
STATEMENTS

3

AUCKLAND COUNCIL

ANNUAL REPORT

2013/2014



Auckland
Council

Te Kaunihera o Tāmaki Makaurau



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Statement of compliance and responsibility

Statement of compliance

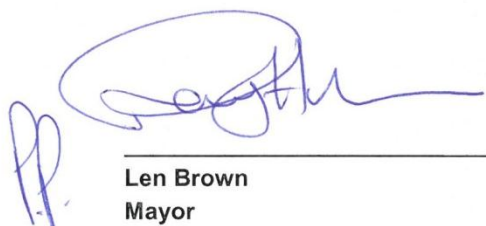
The council and management of Auckland Council confirm that all the statutory requirements in relation to this annual report, as outlined in the Local Government Act 2002, have been met.

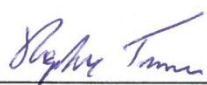
Responsibility

The council and management of Auckland Council accept responsibility for the preparation and completion of the financial statements and the judgements used in them, and hereby adopt the financial statements as presented.

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

In the opinion of Auckland Council the financial statements for the year ended 30 June 2014 fairly reflect the financial performance, financial position and service performance of Auckland Council Group and Auckland Council.



Len Brown
Mayor
25 September 2014

Stephen Town
Chief Executive
25 September 2014

Section 1: Financial accounts

Statements of comprehensive income

For the year ended 30 June 2014

\$million	Note	Group			Council		
		Actual 2014	Budget 2014	Actual 2013	Actual 2014	Budget 2014	Actual 2013
Revenue							
Rates	3	1,395	1,395	1,337	1,406	1,406	1,346
Fees and user charges	4	989	977	952	202	192	195
Grants	5	410	427	390	25	25	48
Development and financial contributions		102	80	64	102	80	65
Other revenue	6	371	225	319	322	175	23
Total revenue		3,267	3,104	3,062	2,057	1,878	1,891
Expenses							
Employee benefits	7	730	680	693	462	445	454
Depreciation and amortisation	15,16	737	696	681	202	196	197
Grants, contributions and sponsorship		122	108	108	569	561	576
Other expenses	8	1,172	1,291	1,189	420	509	476
Total expenses before finance expense		2,761	2,775	2,671	1,653	1,711	1,703
Finance income	9	(16)	(4)	(18)	(72)	(82)	(77)
Finance expense	9	372	371	345	302	314	274
Net finance expense		356	367	327	230	232	197
Operating surplus/(deficit)		150	(38)	64	174	(65)	(9)
Assets vested by the Crown		-	-	385	-	-	-
Net other gains/(losses)	10	483	-	(219)	480	-	(294)
Share of surplus/(deficit) in associates and jointly controlled entities		53	37	41	2	-	(1)
Surplus/(deficit) before income tax		686	(1)	271	656	(65)	(304)
Income tax expense	21	10	12	14	-	-	-
Surplus/(deficit) after income tax		676	(13)	257	656	(65)	(304)
Surplus/(deficit) after income tax is attributable to							
Ratepayers of Auckland		676	(13)	257	656	(65)	(304)
Non-controlling interest		-	-	-	-	-	-
Other comprehensive income							
Net gain on revaluation of property, plant and equipment		1,481	362	241	566	94	1
Tax on revaluation of property, plant and equipment		(3)	-	(73)	-	-	-
Movement in cashflow hedge reserve		(6)	-	22	15	-	15
Tax on cash flow hedges		(1)	-	(2)	-	-	-
Share of associates and jointly-controlled entities' reserves		168	-	(3)	-	-	-
Net unrealised gain on revaluation of financial assets classified as available for sale		2	-	7	-	-	-
Realised losses on revaluation of financial assets classified as held for sale recycled through surplus/(deficit)		-	-	(4)	-	-	(3)
Total other comprehensive income		1,641	362	188	581	94	13
Total comprehensive income		2,317	349	445	1,237	29	(291)
Total comprehensive income is attributable to							
Ratepayers of Auckland		2,317	349	445	1,237	29	(291)
Non-controlling interest		-	-	-	-	-	-

Explanations of significant variances against budget are detailed in section 2.

Statements of financial position

As at 30 June 2014

\$million	Note	Group			Council		
		Actual 2014	Budget 2014	Actual 2013	Actual 2014	Budget 2014	Actual 2013
Assets							
Current assets							
Cash and cash equivalents	11	206	213	336	157	235	297
Receivables and prepayments	12	259	297	273	121	145	115
Other financial assets	13	366	301	331	501	386	416
Derivative financial instruments	14	1	1	4	39	5	9
Inventories		21	18	18	5	5	4
Non-current assets held-for-sale		45	93	42	20	39	19
Total current assets		898	923	1,004	843	815	860
Non-current assets							
Receivables and prepayments	12	99	101	99	74	60	70
Other financial assets*	13	103	95	86	1,337	1,274	873
Derivative financial instruments	14	94	39	75	98	70	92
Property, plant and equipment	15	36,906	36,588	34,212	11,074	10,709	9,866
Intangible assets	16	469	349	403	226	185	201
Biological assets		2	4	2	2	4	2
Investment property	17	457	371	421	94	65	78
Investment in subsidiaries*	18	-	-	-	20,542	20,656	20,234
Investment in associates and jointly-controlled entities	18	846	724	753	5	-	3
Total non-current assets		38,976	38,271	36,051	33,452	33,023	31,419
Total assets		39,874	39,194	37,055	34,295	33,838	32,279
Liabilities							
Current liabilities							
Bank overdraft	11	4	-	3	-	-	-
Employee entitlements	19	77	73	71	47	44	44
Payables and accruals	20	615	575	539	471	415	394
Borrow ings	25	1,171	635	1,287	890	818	928
Derivative financial instruments	14	41	6	13	40	5	12
Tax payable		-	2	10	-	-	-
Provisions	24	84	72	94	82	70	90
Total current liabilities		1,992	1,363	2,017	1,530	1,352	1,468
Non-current liabilities							
Employee entitlements	19	5	6	6	2	2	2
Payables and accruals	20	31	29	26	53	48	46
Borrow ings	25	5,170	6,080	4,594	4,549	4,955	3,774
Derivative financial instruments	14	236	355	215	173	216	131
Provisions	24	286	348	394	285	347	392
Deferred tax liabilities	22	1,009	1,013	975	-	-	-
Total non-current liabilities		6,737	7,831	6,210	5,062	5,568	4,345
Total liabilities		8,729	9,194	8,227	6,592	6,920	5,813
Net assets		31,145	30,000	28,828	27,703	26,918	26,466
Equity							
Contributed equity	27	26,734	26,354	26,734	26,569	26,150	26,569
Accumulated funds	27	586	61	(47)	228	(312)	(419)
Reserves	27	3,825	3,584	2,141	906	1,080	316
Total ratepayer equity		31,145	29,999	28,828	27,703	26,918	26,466
Non-controlling interest		-	1	-	-	-	-
Total equity		31,145	30,000	28,828	27,703	26,918	26,466

*Total investments in council-controlled organisations and entities listed in Local Government Act 2002 section 6(4) for 2014 for the Group is \$5 million and for the council is \$20 billion (2013: \$5 million for the Group, \$20 billion for the council). These investments are included in other financial assets and investment in subsidiaries.

Statements of changes in equity

For the year ended 30 June 2014

Group

\$million	Note	Contributed equity	Accumulated funds	Reserves	Total ratepayer equity	Non-controlling interest	Total equity	Budget
Balance as at 1 July 2012		26,354	(301)	2,209	28,262	1	28,263	28,680
Surplus after tax		-	257	-	257	-	257	20
Other comprehensive income		-	-	188	188	-	188	951
Total comprehensive income		-	257	188	445	-	445	971
Restricted land adjustment		154	-	-	154	-	154	-
Deconsolidation of Counties Manukau Pacific Trust		(39)	2	4	(33)	-	(33)	-
Acquisition of non-controlling interest		-	-	-	-	(1)	(1)	-
Transfers to/(from) reserves	27	265	(5)	(260)	-	-	-	-
Balance as at 30 June 2013	27	26,734	(47)	2,141	28,828	-	28,828	29,651
Balance as at 1 July 2013		26,734	(47)	2,141	28,828	-	28,828	29,651
Surplus/(deficit) after tax		-	676	-	676	-	676	(13)
Other comprehensive income		-	-	1,641	1,641	-	1,641	362
Total comprehensive income		-	676	1,641	2,317	-	2,317	349
Transfers (from)/to reserves	27	-	(43)	43	-	-	-	-
Balance as at 30 June 2014	27	26,734	586	3,825	31,145	-	31,145	30,000

Council

\$million	Note	Contributed equity	Accumulated funds	Reserves	Total ratepayer equity	Budget
Balance as at 1 July 2012		26,150	(165)	618	26,603	26,554
Change in accounting policy	1	-	49	(49)	-	-
Restated balance as at 1 July 2012		26,150	(116)	569	26,603	26,554
(Deficit)/surplus after tax		-	(304)	-	(304)	10
Other comprehensive income		-	-	13	13	325
Total comprehensive (loss)/income		-	(304)	13	(291)	335
Restricted land adjustment		154	-	-	154	-
Transfers to/(from) reserves	27	265	1	(266)	-	-
Balance as at 30 June 2013	27	26,569	(419)	316	26,466	26,889
Balance as at 1 July 2013		26,569	(419)	316	26,466	26,889
Surplus/(deficit) after tax		-	656	-	656	(65)
Other comprehensive income		-	-	581	581	94
Total comprehensive income		-	656	581	1,237	29
Transfers (from)/to reserves	27	-	(9)	9	-	-
Balance as at 30 June 2014	27	26,569	228	906	27,703	26,918

Statements of cash flows

For the year ended 30 June 2014

\$million	Note	Group			Council		
		Actual 2014	Budget 2014	Actual 2013	Actual 2014	Budget 2014	Actual 2013
Cash flows from operating activities							
Receipts from customers, rates, grants and other services		3,104	3,068	2,879	1,802	1,848	1,841
Interest received		15	4	18	71	82	77
Dividends received		130	35	42	162	-	49
Payments to suppliers and employees		(2,078)	(2,139)	(2,047)	(1,529)	(1,575)	(1,579)
Interest paid		(348)	(353)	(320)	(277)	(296)	(245)
Net cash inflow from operating activities	28	823	615	572	229	59	143
Cash flows from investing activities							
Repayment of loans to related parties		-	-	-	97	11	168
Advances of loans to related parties		-	-	(17)	(578)	(504)	(298)
Sale of property, plant and equipment, investment property and intangible assets		17	58	18	15	58	8
Purchase of property, plant and equipment, investment property and intangible assets		(1,493)	(1,615)	(1,315)	(421)	(350)	(217)
Equity investment in subsidiaries and associates		(2)	-	(4)	(278)	(451)	(549)
Acquisition of other financial assets		(86)	(5)	(10)	(84)	(5)	(9)
Proceeds from sale of other financial assets		30	23	32	25	23	35
Advances to external parties		(6)	(6)	(6)	(8)	(6)	(7)
Proceeds from community loan repayments		-	1	-	-	1	-
Net cash outflow from investing activities		(1,540)	(1,544)	(1,302)	(1,232)	(1,223)	(869)
Cash flows from financing activities							
Proceeds from borrow ings		1,724	1,662	1,260	1,747	1,767	1,210
Repayment of borrow ings		(1,136)	(739)	(406)	(882)	(606)	(367)
Repayment of finance lease principal		(2)	-	(3)	(2)	-	(3)
Net cash inflow from financing activities		586	923	851	863	1,161	840
Net (decrease)/increase in cash and cash equivalents and bank overdrafts		(131)	(6)	121	(140)	(3)	114
Opening cash and cash equivalents and bank overdrafts		333	219	212	297	238	183
Closing cash and cash equivalents and bank overdrafts	11	202	213	333	157	235	297

Commercial paper funding is presented net within proceeds of borrowings.

Notes to the financial statements

1 General information

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

The Auckland Council Group (the Group) consists of the ultimate parent, the council, and its subsidiaries, associates and jointly-controlled entities. All subsidiaries and associates are domiciled in New Zealand. Refer to note 18 for a list of significant Group entities.

The primary objective of the Group is to provide services 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) for the purposes of the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements are for the year ended 30 June 2014 and were authorised for issue by the council's governing body on 25 September 2014.

Statement of compliance

These financial statements are prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), the LGA 2002 and the LGAA 2009. They comply with NZ IFRS for PBEs and other applicable financial reporting standards, as appropriate for PBEs.

Budget figures

The budget figures presented are those included in the 2013/2014 Annual Plan adopted by the council on 27 June 2013.

However, certain items in the Group and council 2014 budgets have been remapped from those published in the 2013/2014 Annual Plan. The significant remappings are:

- revenue: \$22 million (council \$22 million) fair value increase to financial investments moved from net other gains/(losses) to other revenue. This change has been made to reflect the accounting policy designation of these assets as fair value through surplus/(deficit).
- expenditure: \$21 million (council \$9 million) of capitalisation of labour moved from other expenses to employee benefits.

As a result, the operating deficit was reduced from \$60 million to \$38 million; total expenses and the deficit before income tax have not changed.

Changes in accounting policies

During the year, the Group combined land and buildings into one class of assets in both restricted and operational asset groups. This change was made because land and buildings are managed as a single unit.

As a result of this, the comparatives for 30 June 2013 have been restated. In the prior year, a loss of \$412 million for council and Group's parks and reserves class was recognised in surplus or deficit, and an \$11 million gain for the council's restricted assets building class was recognised in other comprehensive income. Due to the combining of land and buildings into a single class, this gain has now been offset against the loss. The impact of this has reduced 30 June 2013's deficit after tax for the council from \$315 million to \$304 million and increased the surplus for the Group from \$246 million to \$257 million.

1 General information (continued)

Changes in accounting policies (continued)

For operational land and buildings class, the revaluation was last completed as at 30 June 2012. As a result, \$49 million of revaluation gain has been disclosed as an opening balance adjustment for accumulated funds at 1 July 2012 in the statements of changes in equity of the council.

However, there has been no impact on total comprehensive income or total ratepayer equity as a result of the restatement.

2 Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, with the exception of certain items identified in specific accounting policies below. They 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.

Basis of consolidation

The Group financial statements include the results of the council and its subsidiaries, together with the results of its associates, and jointly-controlled entities, which are both accounted for using the equity method.

Transactions and balances between the council and its subsidiaries are eliminated on consolidation. Non-controlling interests and their movements are shown separately.

In the council's financial statements, investment in subsidiaries, associates and jointly-controlled entities are carried at cost less any accumulated impairment.

Where necessary, adjustments are made to the financial statements of subsidiaries, associates and jointly-controlled entities to bring their accounting policies in line with those of the Group's.

Accounting judgements, estimates and assumptions

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.

Significant judgements, estimates and assumptions have been applied in measuring certain provisions and property, plant and equipment revaluations. Further details are included in notes 15 and 24.

The present value of future cash flows for significant provisions such as weathertightness and contaminated land and closed landfills are calculated using a discount rate of 5.8% (2013: 5.8%), being the average forecast cost of funds for the Group. The risk premium specific to the liability is included in the undiscounted estimate of future cash flows.

Financial instruments such as derivatives are valued at market rates.

2 Summary of significant accounting policies (continued)

2.2 Revenue

Rates

Rates are assessed in full at the start of each financial year. They can be paid in full or by instalments. Where rates are paid in advance of instalment due dates the revenue is recognised on receipt. Where rates are paid in instalments the Group recognises rates revenue in four equal instalments.

Fees and user charges

Significant items of fees and user charges revenue include the following:

Revenue item	Recognition criteria
Water and wastewater	Water and wastewater is recognised when invoiced or accrued in the case of unbilled services.
Sale of goods and services	Revenue from the supply of services is recognised on a percentage of completion basis over the period of the service supplied unless an alternative method better represents the stage of completion of the transaction. Revenue from the sale of goods is recognised when the substantial risks and rewards of ownership have been passed to the buyer.
Port operations	Revenue from port operations is recognised in the period the services are rendered, by reference to the percentage of completion of the specific transaction.
Consents, licenses and permits	Revenue from consents is recognised by reference to the percentage of completion of the transaction at balance date based on the actual service provided to the date. Revenue from licences and permits is recognised on application.

Grants

Grants are recognised as revenue when conditions of the contract have been met.

Development and financial contributions

Development contribution revenue is recognised when the council is capable of providing the service for which the contribution was levied. Financial contributions received by the council are recognised as revenue when they are expended on the activity for which the contribution was levied.

2.3 Grants, contributions and sponsorship expense

Where grants and subsidies are discretionary, the expense is recognised when the Group has advised its decision to pay. Non-discretionary grants are recognised on receipt of application and when the specified criteria have been met.

2.4 Net finance expense

Interest income and expense are recognised in surplus or deficit using the effective interest rate method. Interest expense includes the amortisation of borrowing costs recognised over the borrowing term. Finance expense includes unwinding of discounts on provisions and financial assets; and realised gains or losses on the early close out of derivatives.

2.5 Vested assets

Assets vested by the Crown are recognised at fair value when control of the asset is transferred to the Group. Assets vested by others are also recognised at fair value when control over the asset is obtained and is disclosed as part of other revenue.

2 Summary of significant accounting policies (continued)

2.6 Operating leases

Lessee

The Group leases certain property, plant and equipment. Payments made under operating leases (net of any incentives received from the lessor) are expensed on a straight-line basis over the lease term.

Lessor

Rental income (net of any incentives given to lessees) is recognised as income on a straight-line basis over the lease term.

2.7 Income tax

Income tax comprises current tax and deferred tax calculated using tax rate (and tax law) that have 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 income and expense or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income and expense or directly in equity respectively.

Current tax is the amount of income tax payable 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.

2.8 Inventories

Inventories are recorded at the lower of cost using the first-in-first-out method (FIFO) or net realisable value unless they are held for consumption in the provision of non-commercial services, which are recorded at cost using FIFO, adjusted for any loss in service potential.

2.9 Property, plant and equipment

Initial recognition

Property, plant and equipment are initially recognised at cost or at fair value when an asset is acquired at no cost or for a nominal cost. Capital work in progress is recognised at cost less impairment and is not depreciated.

Subsequent costs

The cost of replacing or improving part of an asset is recognised in the asset's carrying amount. The carrying amount of the replaced part is derecognised. The costs of repairs and maintenance are recognised in surplus or deficit as incurred.

Disposals

Realised gains and losses on disposal of property, plant and equipment are recognised in surplus or deficit. Any amount included in the asset revaluation reserve in respect of the disposed item is transferred from the reserve to accumulated funds.

2 Summary of significant accounting policies (continued)

2.9 Property, plant and equipment (continued)

Revaluation

Certain property, plant and equipment are revalued after initial recognition. Revaluations are carried out on a class of asset basis. Net revaluation results are recognised in other comprehensive income and are accumulated to the asset revaluation reserve in equity for that class of asset. Where the revaluation results in a debit balance in the asset revaluation reserve, the debit balance is recognised in surplus or deficit. Any subsequent increase on revaluation is recognised first in the surplus or deficit up to the amount previously expensed and then recognised in other comprehensive income.

Class of property, plant and equipment	Subsequent measurement	Estimated useful life
Infrastructure	Includes 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.	
Roads	Fair value less accumulated depreciation (straight line basis) and impairment losses since last revaluation.	6-120 years
Water and wastewater	Fair value less accumulated depreciation (straight line basis) and impairment losses since last revaluation.	1-389 years
Machinery	Fair value less accumulated depreciation (straight line basis) and impairment losses since last revaluation.	1-175 years
Stormwater	Fair value less accumulated depreciation (straight line basis) and impairment losses since last revaluation.	10-200 years
Land	Cost less any accumulated impairment losses. Includes land under roads, land intended for roads and associated roading infrastructure.	Indefinite
Restricted	Includes properties and improvements where the use or transfer of title outside of the Group is legally restricted.	
Parks and reserves	Fair value less accumulated impairment losses since last revaluation.	Indefinite
Improvements	Cost less accumulated depreciation (straight line basis) and impairment losses.	3-100 years
Buildings	Fair value less accumulated depreciation (straight line basis) and impairment losses since last revaluation.	5-90 years
Operational	Includes property, plant and equipment used to provide core council services, either for administration, as a community service or as a business activity (but not infrastructure or restricted property, plant and equipment).	
Land	Fair value less accumulated impairment losses since last revaluation.	Indefinite
Buildings	Fair value less accumulated depreciation (straight line basis) and impairment losses since last revaluation.	1-101 years
Marina structures	Fair value less accumulated depreciation (straight line basis) and impairment losses since last revaluation.	40-100 years
Rolling stock	Fair value less accumulated depreciation (straight line basis) and impairment losses since last revaluation.	2-50 years
Wharves	Fair value less accumulated depreciation (straight line basis) and impairment losses since last revaluation.	2-100 years
Works of art	Fair value less accumulated impairment losses since last revaluation.	Indefinite
Specified cultural and heritage assets	Deemed cost less accumulated impairment losses.	Indefinite
Other operational	Cost less accumulated depreciation (straight line basis) and impairment losses. Includes landfills, motor vehicles, office equipment, library books and furniture and fittings.	1-100 years

For the methods and key assumptions used when applying the measurement principles, see note 15.

2 Summary of significant accounting policies (continued)

2.10 Intangible assets

Initial recognition

Intangible assets are initially recognised at cost. The cost of an internally generated intangible asset represents expenses incurred in the development phase of the asset only. Intangible assets acquired at no cost are initially recognised at fair value where that can be reliably measured.

Class of intangible asset	Subsequent measurement	Estimated useful life
Computer software	Cost less accumulated amortisation (straight line basis) and impairment.	1-10 years
Rights to acquire	Cost less accumulated impairment losses. Contracts for rights to acquire range from 4 to 40 years before the asset passes to the Group.	-
Intellectual property	Cost less accumulated amortisation (straight line basis) and impairment losses.	4-35 years
Rights to occupy	Cost less accumulated impairment losses.	Indefinite
Goodwill	Cost less accumulated impairment losses.	Indefinite
Other intangible assets	Cost less accumulated amortisation (straight line basis) and impairment.	1-63 years

Disposals

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

2.11 Investment property

Investment property is initially recognised at cost. After initial recognition, investment property is carried at fair value. Gains or losses arising from fair value changes are included in surplus or deficit.

For the methods and key assumptions used when applying the measurement principles, see note 17.

2.12 Impairment

Impairment of non-financial assets

Non-financial assets are assessed at each reporting date for impairment. Impairment is first recognised as a reversal of a previously recorded revaluation reserve for that class of asset. Where no reserve is available, the impairment is recognised in surplus or deficit.

Impairment of financial assets

Financial assets are assessed for impairment at each reporting date for impairment. Impairment is recognised in surplus or deficit.

2.13 Provisions

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 costs in surplus or deficit.

2 Summary of significant accounting policies (continued)

2.14 Non-derivative financial instruments

Non-derivative financial instruments include cash and cash equivalents, receivables (net of prepayments), community loans, unit trusts, other assets, investments in listed and unlisted shares, payables and accruals, certain employee entitlements and borrowings. These are recognised initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are recognised as described below.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Bank overdraft is included in borrowings in current liabilities within the statement of financial position and as a component of cash and cash equivalents in the statement of cash flows.

These items are measured at fair value.

Receivables

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

Collectability of receivables is reviewed on an ongoing basis. Individual debts which are known to be uncollectible are written off.

Unit trusts and listed shares

Unit trusts and listed shares are measured at fair value. Changes in the fair value are recognised through surplus or deficit as this reflects how the portfolio is managed.

Other assets

Other assets include bonds, loans to related parties, unlisted shares and community loans. They are subsequently measured at amortised cost using the effective interest method less any impairment losses, with the exception of unlisted shares, which are measured at fair value.

Employee entitlements

Pension liabilities

Contributions to defined contribution retirement plans and the Defined Benefit Contributors Scheme, a multi-employer defined benefit scheme, are recognised in surplus or deficit as they fall due.

Other employee entitlements

Employee entitlements for salaries and wages, annual leave, long service leave and other similar benefits are recognised in surplus or deficit when they accrue to employees. 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 reported at the present value of estimated future cash outflows.

2 Summary of significant accounting policies (continued)

2.14 Non-derivative financial instruments (continued)

Payables and accruals

Current payables and accruals are stated at cost. Non-current payables and accruals are measured at the present value of the estimated future cash outflows.

Borrowings

Borrowings are subsequently measured at amortised cost using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for more than 12 months after the balance date.

Realised and unrealised gains and losses for non-derivative financial instruments

Financial assets and liabilities are classified as fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets or liabilities are held. Management determines the classification of financial assets and liabilities at initial recognition.

Where assets are designated as fair value through surplus or deficit, the realised and unrealised gains or losses are recognised as revenue or expense. Movements of unrealised gains and losses for all other categories are recognised in other comprehensive income.

2.15 Derivative financial instruments

Derivative financial instruments are used to hedge exchange rate and interest rate risks. The Group does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value and subsequently remeasured at fair value. Any resulting gains or losses are recognised in surplus or deficit unless the derivative has been designated into a hedge relationship that qualifies for hedge accounting.

Cash flow hedges

The Group recognises the effective portion of changes in the fair value of derivatives that qualify as cash flow hedges in other comprehensive income. Gains or losses relating to the ineffective portion are recognised in surplus or deficit.

On derecognition, cumulative gains or losses held in other comprehensive income are transferred from reserves to 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 income are transferred to the initial cost or carrying amount of the asset or liability.

2 Summary of significant accounting policies (continued)

2.16 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements 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.

2.17 Foreign currency translation

Foreign currency transactions and balances are converted into NZD using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in surplus or deficit, except when deferred in other comprehensive income as qualifying cash flow hedges. All foreign exchange gains and losses are presented within net other gains/(losses) in the statement of comprehensive income.

2.18 Related parties

Related parties include key management personnel, the elected representatives of the council and their close family members and entities controlled by them. Key management personnel are the chief executive and executive leadership team. The elected representatives of the council are the mayor and councillors. Close family members include spouses or domestic partners, children and dependants.

Related party transactions do not include income from rates, water supply and wastewater, the supply of services and consents, licences and permits.

Subsidiaries, associates and jointly-controlled entities are also related parties. This is due to the council's influence over these entities.

2.19 Future changes to financial reporting standards

The External Reporting Board (XRB) has introduced a revised Accounting Standards Framework. The revised framework introduces Public Benefit Entity Accounting Standards largely based on International Public Sector Accounting Standards, modified as appropriate for New Zealand circumstances. These standards will apply for years beginning on or after 1 July 2014. The council will transition to the new standards when preparing its 30 June 2015 financial statements. The Group has not assessed the full implication of the new Accounting Standards Framework at this time, but other than certain changes to disclosure requirements, the Group does not expect the recognition and measurement of transactions to differ significantly to those prescribed in NZ IFRS.

Financial reporting requirements for PBEs are frozen in the short-term and all new NZ IFRS and amendments to existing NZ IFRS with a mandatory effective date for annual reporting periods commencing on or after 1 January 2012 are not applicable to PBEs. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude PBEs from their scope.

2.20 New and amended standards adopted

No new or amended standards have been adopted by the Group.

3 Rates

\$million	Group	Actual 2013	Council	Actual 2013
	Actual 2014		Actual 2014	
General	1,286	1,228	1,297	1,237
Targeted	98	98	98	98
Penalties	17	16	17	16
Rates remissions	(4)	(4)	(4)	(4)
Discounts	(2)	(1)	(2)	(1)
Total rates	1,395	1,337	1,406	1,346

Rate remissions are governed by the council's Rate Remission Policy.

The annual rates revenue of the council for the year ended 30 June 2014 for the purposes of the LGFA Guarantee and Indemnity Deed disclosure is \$1.4 billion (2013: \$1.3 billion).

Non-rateable land

In accordance with the Local Government (Rating) Act 2002, certain properties cannot be rated for general and certain targeted rates. These properties include schools, places of religious worship, public gardens and reserves. Non-rateable land does not constitute a remission under the council's Rate Remission Policy.

4 Fees and user charges

\$million	Group	Actual 2013	Council	Actual 2013
	Actual 2014		Actual 2014	
Water and wastewater	407	414	-	-
Sale of goods and services	208	208	80	86
Port operations	216	184	-	-
Consents, licences and permits	120	105	119	106
Infringement fees and fines	38	41	3	3
Total fees and user charges	989	952	202	195

5 Grants

\$million	Group	Actual 2013	Council	Actual 2013
	Actual 2014		Actual 2014	
Operating grants	235	225	15	46
Capital grants	175	165	10	2
Total grants	410	390	25	48

Included within grants are government grants of \$398 million (2013: \$383 million) provided to the Group and \$24 million (2013: \$48 million) provided to the council.

6 Other revenue

	Group		Council	
\$million	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Rental	71	73	42	48
Vested assets (non-Crown)	161	95	45	30
Dividends	7	5	162	49
Other	132	146	73	110
Total other revenue	371	319	322	237

7 Employee benefits

	Group		Council	
\$million	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Salaries and wages	671	638	431	425
Contributions to defined contribution schemes	18	13	10	8
Other	41	42	21	21
Total employee benefits	730	693	462	454

8 Other expenses

Other expenses include the following specific items

	Group		Council	
\$million	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Goods and services	526	595	124	150
Consultancy and professional services	163	169	82	84
Repairs and maintenance	223	171	98	93
Utilities and occupancy	53	47	32	28
Rental and lease	46	37	33	24
Impairment of property, plant and equipment	28	-	-	-
Impairment of receivables	(2)	8	(1)	6
Fees paid to elected members	9	9	9	9
Audit fees	4	4	1	1

Audit fees

The following fees were charged for the services provided by the auditor of the Group

	Group		Council	
\$000	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Auditor's fees				
Audit of financial statements	3,103	3,180	1,081	1,050
Other assurance-related services				
Review of interim financial statements	270	278	120	113
Agreed upon procedures review of financial statements	19	-	-	-
Review of service performance	60	-	-	-
Audit of amendments to Long-term Plan	-	21	-	21
Review of securities issuance and compliance with funding covenants	49	58	43	45
	398	357	163	179
Other services				
Tax consultancy services	55	69	-	-
Total fees to auditor	3,556	3,606	1,244	1,229

9 Net finance expense

\$million	Group		Council	
	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Finance income				
Interest	15	11	69	61
Net gain on early close out of sw aps	1	7	3	16
Total finance income	16	18	72	77
Finance expense				
Interest	348	310	279	240
Time value adjustments	18	19	18	19
Net loss on early close out of sw aps	3	13	3	13
Other	3	3	2	2
Total finance expense	372	345	302	274
Net finance expense	356	327	230	197

10 Net other gains/(losses)

\$million	Group		Council	
	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Reversal of previously recognised impairment	2	25	2	-
Net increase in fair value of investment property	10	29	7	13
Realised gains on available-for-sale financial assets	-	1	-	-
Net increase in financial assets held at fair value through surplus/(deficit)	94	157	73	96
Net losses on disposal of property, plant and equipment and intangible assets	(34)	(7)	(14)	(2)
Net gains/(losses) on revaluation of property, plant and equipment	412	(424)	412	(401)
Impairment of investment in subsidiaries, associates and joint ventures	(1)	-	-	-
Total net other gains/(losses)	483	(219)	480	(294)

11 Cash and cash equivalents

\$million	Group		Council	
	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Deposits with maturities of three months or less	136	264	133	263
Cash on hand and on demand bank deposits	70	72	24	34
Total cash and cash equivalents	206	336	157	297
Bank overdraft	(4)	(3)	-	-
Total cash and cash equivalents, and bank overdrafts	202	333	157	297

Cash and cash equivalents held for a specified purpose is \$35 million (2013: \$19 million) for the Group and \$9 million (2013: \$8 million) for the council.

12 Receivables and prepayments

	Group		Council	
\$million	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Current				
Trade receivables	152	156	57	41
Less provision for impairment	(21)	(23)	(18)	(19)
Rates receivables	34	43	34	43
Related party receivables	-	-	22	22
Net receivables	165	176	95	87
Accrued income	66	78	7	9
GST receivable	12	-	12	10
Insurance recoveries	2	6	2	6
Prepayments	12	11	5	3
Other	2	2	-	-
Total current	259	273	121	115
Non-current				
Rates receivables	2	2	2	2
Insurance recoveries	6	12	6	12
Prepayments	25	26	-	-
Other	66	59	66	56
Total non-current	99	99	74	70
Total receivables and prepayments	358	372	195	185

Other receivables include insurance recoveries for weathertightness claims and prepayments. Insurance recoveries are the present value of anticipated receipts of insurance cover for weathertightness claims. These have been calculated by the independent actuary who calculated the provision for weathertightness.

All insurance cover for weathertightness claims is with Riskpool, a mutual liability fund created by New Zealand local authorities to provide professional indemnity and public liability protection for councils and CCOs. See note 24.1 for further information on Riskpool.

Ratepayers can apply for payment plan options in special circumstances. Where such payment plans exist and the impact of discounting is significant the amounts due are discounted to the present value of future repayments.

Most receivables are non-interest bearing and the carrying value approximates fair value.

The provision for impairment of receivables is calculated by a review of large specific overdue receivables and a collective assessment of smaller receivables. For the collective assessment, expected losses were determined by a historical analysis of previously incurred losses.

12 Receivables and prepayments (continued)

The ageing profile of net receivables is as follows

Group	2014			2013		
\$million	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	56	-	56	92	-	92
Past due 1 to 60 days	57	-	57	43	-	43
Past due > 60 days	73	(21)	52	64	(23)	41
Total	186	(21)	165	199	(23)	176

Council	2014			2013		
\$million	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	23	-	23	32	-	32
Past due 1 to 60 days	39	-	39	29	-	29
Past due > 60 days	51	(18)	33	45	(19)	26
Total	113	(18)	95	106	(19)	87

13 Other financial assets

	Group		Council	
\$million	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Current				
Unit trusts	291	274	291	274
Loans to related parties	-	17	139	108
Other	75	40	71	34
Total current	366	331	501	416
Non-current				
Loans to related parties	5	4	1,275	825
Other	98	82	62	48
Total non-current	103	86	1,337	873
Total other financial assets	469	417	1,838	1,289

Unit trusts

Unit trusts are recognised at fair value using market information. The \$291 million (2013: \$274 million) unit trusts were designated as fair value through surplus or deficit at the inception of the council.

Loans to related parties

Loans to related parties are interest bearing at market rates. Interest rates for 2014 range from 4.2% to 6.1% (2013: range from 2.8% to 7.7%). Refer to note 31.

13 Other financial assets (continued)

Other

Significant items included within other are as follows:

Credit support annex

Credit support annex is a collateral agreement entered by the Group with a bank to mitigate credit risk for derivative transactions. At 30 June 2014 the balance for the Group and council was \$42 million. Refer to note 26.2 for further information.

Bonds

Bonds are carried at amortised cost. The fair value of the bonds held by the Group is \$25 million (2013: \$23 million) and the council is \$15 million (2013: \$14 million). Fair value has been determined using quoted market prices from an independent source.

Listed shares

The Group has \$25 million (2013: \$23 million) of listed shares classified as non-current which are designated as available-for-sale in other comprehensive income.

In addition, the council has \$20 million (2013: \$30 million) of listed shares classified as current which are designated as fair value through surplus or deficit.

Unlisted shares

The Group has investments in New Zealand Local Government Funding Agency Ltd (LGFA) and New Zealand Local Government Insurance Corporation Ltd which are recognised at fair value. The values are determined by reference to the council's share of net asset backing in these companies.

Borrower notes

When borrowing from LGFA, an amount equal to 1.6% of the loan is retained by LGFA, which issues borrower notes to that value. Borrower notes are redeemed when the loan is repaid. Refer to note 30.1.1 for further information on the LGFA.

Community loans

The face value of the Group's loans to community organisations is \$12 million (2013: \$14 million) and the council is \$10 million (2013: \$10 million).

14 Derivative financial instruments

The Group has entered into derivative financial instrument contracts to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with approved financial risk management policies (refer to note 26).

The notional principal amounts presented below for the Group reflects only transactions with third parties. The council's position includes both external and intra-group derivatives. Refer to note 31.1 for further details of intra-group derivatives.

14 Derivative financial instruments (continued)

\$million	Group				Council			
	Notional		Fair value		Notional		Fair value	
	2014	2013	2014	2013	2014	2013	2014	2013
Assets								
Current								
Interest rate sw aps								
fair value through surplus/deficit	150	195	1	4	-	85	-	2
Forw ard foreign currency contracts								
fair value through surplus/deficit	-	1	-	-	223	128	39	7
Total current	150	196	1	4	223	213	39	9
Non-current								
Interest rate sw aps								
cash flow hedge	75	227	1	8	-	177	-	7
fair value through surplus/deficit	3,089	2,120	93	57	3,006	2,080	96	63
Forw ard foreign currency contracts								
fair value through surplus/deficit	-	2	-	-	15	212	2	12
Cross-currency interest rate sw aps								
cash flow hedge	-	295	-	10	-	295	-	10
Total non-current	3,164	2,644	94	75	3,021	2,764	98	92
Total assets	3,314	2,840	95	79	3,244	2,977	137	101
Liabilities								
Current								
Interest rate sw aps								
cash flow hedge	-	97	-	1	-	45	-	-
fair value through surplus/deficit	317	35	1	1	317	90	1	1
Forw ard foreign currency contracts								
cash flow hedge	230	127	40	7	-	-	-	-
fair value through surplus/deficit	4	109	-	4	223	235	39	11
Total current	551	368	41	13	540	370	40	12
Non-current								
Interest rate sw aps								
cash flow hedge	120	395	3	9	-	280	-	5
fair value through surplus/deficit	3,977	3,006	124	168	2,672	2,027	64	90
Forw ard foreign currency contracts								
cash flow hedge	15	214	2	13	-	-	-	-
fair value through surplus/deficit	-	-	-	-	15	215	2	11
Cross currency interest rate sw aps								
cash flow hedge	-	184	-	15	-	184	-	15
fair value hedge	-	-	-	8	-	-	-	8
fair value through surplus/deficit	1,356	36	107	2	1,356	36	107	2
Total non-current	5,468	3,835	236	215	4,043	2,742	173	131
Total liabilities	6,019	4,203	277	228	4,583	3,112	213	143

At 31 March 2014 the council revoked all designations where the hedge relationship had previously qualified for hedge accounting. This included all interest rate swaps and cross currency interest rate swaps.

As a result, the council has recognised any fair value movements on these derivatives since 31 March 2014 in net other gains or losses. Of the amount recognised in net other gains or losses \$3 million relates to revoking hedge designations.

In the future the council may apply hedge accounting where appropriate for qualifying hedges.

The Group continues to apply hedge accounting.

15 Property, plant and equipment

Group

\$million	Infrastructure	Restricted	Operational	Work in progress	Total
Net book value as at 1 July 2012	22,580	4,100	5,480	1,116	33,276
Additions	-	-	-	1,696	1,696
Transfer from work in progress	1,072	97	367	(1,536)	-
Disposals of business	-	-	(63)	(1)	(64)
Depreciation	(404)	(42)	(185)	-	(631)
Impairment loss charged to surplus/(deficit)	-	-	(11)	-	(11)
Disposals	(22)	-	(12)	-	(34)
Transfers*	127	(138)	(6)	1	(16)
Revaluations, net of accumulated depreciation	261	(246)	(19)	-	(4)
Net book value as at 30 June 2013	23,614	3,771	5,551	1,276	34,212
As at 30 June 2013					
Cost/valuation	24,048	3,867	5,849	1,276	35,040
Accumulated depreciation and impairment	(434)	(96)	(298)	-	(828)
Net book value	23,614	3,771	5,551	1,276	34,212
Net book value as at 1 July 2013	23,614	3,771	5,551	1,276	34,212
Additions	-	-	-	1,626	1,626
Transfer from work in progress	753	160	537	(1,450)	-
Depreciation	(433)	(44)	(205)	-	(682)
Impairment loss charged to surplus/(deficit)	-	-	(28)	-	(28)
Disposals	(23)	(6)	(18)	(2)	(49)
Transfers*	23	(30)	(5)	(45)	(57)
Revaluations, net of accumulated depreciation	699	645	540	-	1,884
Net book value as at 30 June 2014	24,633	4,496	6,372	1,405	36,906
As at 30 June 2014					
Cost/valuation	24,910	4,628	6,708	1,405	37,651
Accumulated depreciation and impairment	(277)	(132)	(336)	-	(745)
Net book value	24,633	4,496	6,372	1,405	36,906

Council

\$million	Infrastructure	Restricted	Operational	Work in progress	Total
Net book value as at 1 July 2012	3,674	4,092	2,081	261	10,108
Additions	-	-	-	366	366
Transfer from work in progress	73	96	188	(357)	-
Depreciation	(41)	(42)	(84)	-	(167)
Disposals	(5)	-	(4)	-	(9)
Transfers*	(33)	(138)	(15)	-	(186)
Revaluations, net of accumulated depreciation	-	(246)	-	-	(246)
Net book value as at 30 June 2013	3,668	3,762	2,166	270	9,866
As at 30 June 2013					
Cost/valuation	3,710	3,858	2,308	270	10,146
Accumulated depreciation and impairment	(42)	(96)	(142)	-	(280)
Net book value	3,668	3,762	2,166	270	9,866
Net book value as at 1 July 2013	3,668	3,762	2,166	270	9,866
Additions	-	-	-	440	440
Transfer from work in progress	90	160	127	(377)	-
Depreciation	(41)	(43)	(87)	-	(171)
Disposals	(5)	(7)	(16)	-	(28)
Transfers*	(17)	(30)	37	-	(10)
Revaluations, net of accumulated depreciation	-	645	332	-	977
Net book value as at 30 June 2014	3,695	4,487	2,559	333	11,074
As at 30 June 2014					
Cost/valuation	3,777	4,619	2,704	333	11,433
Accumulated depreciation and impairment	(82)	(132)	(145)	-	(359)
Net book value	3,695	4,487	2,559	333	11,074

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

15 Property, plant and equipment (continued)

Revaluations

During the year, a number of classes of assets were revalued. They include roads, parks, reserves and buildings, operational land and buildings, and works of art. The total revaluation gain was \$1.9 billion.

The gain was largely due to revaluation of three classes of assets; roads \$699 million; parks, reserves and buildings \$645 million and land and buildings \$540 million.

Parks, reserves and buildings, and operational land and buildings were last revalued in 2013 and 2012 respectively. Auckland property values, particularly residential land, have increased significantly since these valuations. The council's assessment on the impact of this movement was that the carrying value of these two classes of assets no longer reflected fair value. The two classes were accordingly revalued to reflect fair value at 30 June 2014.

The roads asset class was revalued as part of the normal revaluation cycle.

Parks, reserves and buildings

Parks, reserves and buildings were last revalued at 30 June 2013 and \$412 million was recognised as a loss through surplus or deficit. The reduction in values during that year was due primarily to the application of a standard valuation methodology to asset values inherited from legacy councils on amalgamation. The value of park and reserve land is closely linked to residential land values. The 2014 valuation increased the values by \$645 million, of which \$412 million was recognised as a gain through the surplus or deficit (thereby offsetting the 2013 loss) and \$233 million as other comprehensive income.

Operational land and buildings

Operational land and buildings were last revalued at 30 June 2012. The full revaluation gain for the current year of \$548 million has been recognised in the asset revaluation reserve. The impact of the revaluation of this class is less significant in 2014 than the parks, reserves and buildings class. This is due to a greater proportion of commercial assets in this asset class which have had lower increases in value than residential assets.

Roads

Roads were last revalued at 30 June 2011 and are valued on a depreciated replacement cost basis. Current contract rates are used as the base to determine replacement cost. Over the past three years the Group's construction costs have increased by approximately 10.6%.

15 Property, plant and equipment (continued)

Group

Infrastructure assets \$million	Roads	Water and wastewater	Machinery	Stormwater	Land	Other	Total
Net book value as at 1 July 2012	6,550	6,290	819	3,540	5,314	67	22,580
Transfers from capital work in progress	553	76	90	43	289	21	1,072
Depreciation	(196)	(125)	(43)	(39)	-	(1)	(404)
Disposals	(1)	(10)	(3)	(5)	(3)	-	(22)
Transfers*	11	-	-	-	129	(13)	127
Revaluations, net of accumulated depreciation	-	225	36	-	-	-	261
Net book value as at 30 June 2013	6,917	6,456	899	3,539	5,729	74	23,614
As at 30 June 2013							
Cost/valuation	7,297	6,463	904	3,578	5,729	77	24,048
Accumulated depreciation and impairment	(380)	(7)	(5)	(39)	-	(3)	(434)
Net book value	6,917	6,456	899	3,539	5,729	74	23,614
Net book value as at 1 July 2013	6,917	6,456	899	3,539	5,729	74	23,614
Transfers from capital work in progress	314	200	80	53	83	23	753
Depreciation	(206)	(138)	(48)	(40)	-	(1)	(433)
Disposals	(7)	(8)	(4)	(2)	(1)	(1)	(23)
Transfers*	4	-	26	-	10	(17)	23
Revaluations, net of accumulated depreciation	699	-	-	-	-	-	699
Net book value as at 30 June 2014	7,721	6,510	953	3,550	5,821	78	24,633
As at 30 June 2014							
Cost/valuation	7,723	6,651	1,005	3,629	5,821	81	24,910
Accumulated depreciation and impairment	(2)	(141)	(52)	(79)	-	(3)	(277)
Net book value	7,721	6,510	953	3,550	5,821	78	24,633

Council

Infrastructure assets \$million	Land	Stormwater	Other	Total
Net book value as at 1 July 2012	48	3,539	87	3,674
Transfers from capital work in progress	13	40	20	73
Depreciation	-	(40)	(1)	(41)
Disposals	-	(5)	-	(5)
Transfers*	-	(1)	(32)	(33)
Net book value as at 30 June 2013	61	3,533	74	3,668
As at 30 June 2013				
Cost/valuation	61	3,572	77	3,710
Accumulated depreciation and impairment	-	(39)	(3)	(42)
Net book value	61	3,533	74	3,668
Net book value as at 1 July 2013	61	3,533	74	3,668
Transfers from capital work in progress	13	53	24	90
Depreciation	-	(40)	(1)	(41)
Impairment loss charged to surplus/(deficit)	-	-	-	-
Disposals	(1)	(2)	(2)	(5)
Transfers*	-	-	(17)	(17)
Net book value as at 30 June 2014	73	3,544	78	3,695
As at 30 June 2014				
Cost/valuation	73	3,623	81	3,777
Accumulated depreciation and impairment	-	(79)	(3)	(82)
Net book value	73	3,544	78	3,695

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

15 Property, plant and equipment (continued)

Group			
Restricted assets			
\$million	Parks, reserves and buildings	Improvements	Total
Net book value as at 1 July 2012	3,313	787	4,100
Transfers from capital work in progress	37	60	97
Depreciation	-	(42)	(42)
Transfers*	(87)	(51)	(138)
Revaluations, net of accumulated depreciation	(246)	-	(246)
Net book value as at 30 June 2013	3,017	754	3,771
As at 30 June 2013			
Cost/valuation	3,017	850	3,867
Accumulated depreciation and impairment	-	(96)	(96)
Net book value	3,017	754	3,771
Net book value as at 1 July 2013	3,017	754	3,771
Transfers from capital work in progress	95	65	160
Depreciation	(2)	(42)	(44)
Disposals	(6)	-	(6)
Transfers*	(28)	(2)	(30)
Revaluations, net of accumulated depreciation	645	-	645
Net book value as at 30 June 2014	3,721	775	4,496
As at 30 June 2014			
Cost/valuation	3,721	907	4,628
Accumulated depreciation and impairment	-	(132)	(132)
Net book value	3,721	775	4,496
Council			
Restricted assets			
\$million	Parks, reserves and buildings	Improvements	Total
Net book value as at 1 July 2012	3,305	787	4,092
Transfers from capital work in progress	36	60	96
Depreciation	-	(42)	(42)
Transfers*	(87)	(51)	(138)
Revaluations, net of accumulated depreciation	(246)	-	(246)
Net book value as at 30 June 2013	3,008	754	3,762
As at 30 June 2013			
Cost/valuation	3,008	850	3,858
Accumulated depreciation and impairment	-	(96)	(96)
Net book value	3,008	754	3,762
Net book value as at 1 July 2013	3,008	754	3,762
Transfers from capital work in progress	95	65	160
Depreciation	(1)	(42)	(43)
Disposals	(7)	-	(7)
Transfers*	(28)	(2)	(30)
Revaluations, net of accumulated depreciation	645	-	645
Net book value as at 30 June 2014	3,712	775	4,487
As at 30 June 2014			
Cost/valuation	3,712	907	4,619
Accumulated depreciation and impairment	-	(132)	(132)
Net book value	3,712	775	4,487

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

15 Property, plant and equipment (continued)

Group

Operational assets								
\$million	Land and buildings	Marina structures	Rolling stock	Wharves	Works of art	Specified cultural and heritage	Other	Total
Net book value as at 1 July 2012	4,189	118	96	305	262	150	360	5,480
Transfers from capital work in progress	269	-	4	16	3	-	75	367
Disposal of business	(52)	-	-	-	-	-	(11)	(63)
Depreciation	(85)	(4)	(22)	(6)	-	-	(68)	(185)
Impairment loss charged to surplus/(deficit)	(11)	-	-	-	-	-	-	(11)
Disposals	(8)	-	-	-	-	-	(4)	(12)
Transfers*	14	-	-	-	-	1	(21)	(6)
Revaluations, net of accumulated depreciation	(10)	-	(10)	-	1	-	-	(19)
Net book value as at 30 June 2013	4,306	114	68	315	266	151	331	5,551
As at 30 June 2013								
Cost/valuation	4,403	120	71	321	266	151	517	5,849
Accumulated depreciation and impairment	(97)	(6)	(3)	(6)	-	-	(186)	(298)
Net book value	4,306	114	68	315	266	151	331	5,551
Net book value as at 1 July 2013	4,306	114	68	315	266	151	331	5,551
Transfers from capital work in progress	263	15	135	2	3	-	119	537
Depreciation	(91)	(4)	(26)	(7)	-	-	(77)	(205)
Impairment loss charged to surplus/(deficit)	-	-	(28)	-	-	-	-	(28)
Disposals	(16)	-	(1)	-	-	-	(1)	(18)
Transfers*	(39)	-	(5)	2	-	-	37	(5)
Revaluations, net of accumulated depreciation	544	-	-	-	(4)	-	-	540
Net book value as at 30 June 2014	4,967	125	143	312	265	151	409	6,372
As at 30 June 2014								
Cost/valuation	5,017	131	157	323	265	151	664	6,708
Accumulated depreciation and impairment	(50)	(6)	(14)	(11)	-	-	(255)	(336)
Net book value	4,967	125	143	312	265	151	409	6,372

Council

Operational assets					
\$million	Land and buildings	Works of art	Other	Specified cultural and heritage	Total
Net book value as at 1 July 2012	1,741	3	187	150	2,081
Transfers from capital work in progress	161	1	26	-	188
Depreciation	(44)	-	(40)	-	(84)
Disposals	-	-	(4)	-	(4)
Transfers*	(1)	-	(15)	1	(15)
Net book value as at 30 June 2013	1,857	4	154	151	2,166
As at 30 June 2013					
Cost/valuation	1,901	4	252	151	2,308
Accumulated depreciation and impairment	(44)	-	(98)	-	(142)
Net book value	1,857	4	154	151	2,166
Net book value as at 1 July 2013	1,857	4	154	151	2,166
Transfers from capital work in progress	82	3	42	-	127
Depreciation	(43)	-	(44)	-	(87)
Disposals	(15)	(1)	-	-	(16)
Transfers*	7	-	30	-	37
Revaluations, net of accumulated depreciation	332	-	-	-	332
Net book value as at 30 June 2014	2,220	6	182	151	2,559
As at 30 June 2014					
Cost/valuation	2,224	6	323	151	2,704
Accumulated depreciation and impairment	(4)	-	(141)	-	(145)
Net book value	2,220	6	182	151	2,559

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

15 Property, plant and equipment (continued)

Security over property, plant and equipment

Other than property, plant and equipment subject to finance leases (refer below), no other property, plant and equipment is pledged as security for liabilities (2013: none) for the Group.

Impairment

Rolling stock was impaired by \$28 million (2013: \$nil) due to the planned replacement of the majority of the diesel rolling stock with electric trains.

Third party compensation

No compensation was received from third parties for items of property, plant and equipment that were impaired, lost or transferred and not included in surplus or deficit (2013: \$nil) for the Group.

Finance leases

Other operational property, plant and equipment include property, plant and equipment subject to finance leases. The value of these is \$5 million for the Group (2013: \$6 million) and \$3 million for the council (2013: \$5 million).

Restrictions

Various properties held by the Group 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. At 30 June 2014, property, plant and equipment held that these restrictions apply to a total of \$293 million (2013: \$249 million) for the Group and \$172 million (2013: \$149 million) for the council.

Valuation methodology

These tables detail the valuation methodologies applied to classes of assets subject to revaluations. Where an item of property, plant and equipment is acquired between revaluation cycles, it is recorded at cost less accumulated depreciation. In the case of items acquired at nil or nominal value, they are initially recognised at fair value less accumulated depreciation until the next revaluation cycle of that asset class.

Where there is no active market for an asset, the depreciated replacement cost (DRC) method is used. This method takes into consideration the replacement cost of the relevant assets, the age and condition of the assets, estimated optimisation rates and estimated remaining useful lives of those assets.

It is assumed that all asset classes have a zero residual value at the end of their useful lives.

15 Property, plant and equipment (continued)

Valuation methodology (continued)

Infrastructure

Class and category	Effective date of revaluation	Valuation approach and key assumptions
Water, wastewater and machinery	30-Jun-13	Valuations are performed by an external valuer, ANA Group Ltd, and peer-reviewed by Beca Valuations Ltd. Valuation is at DRC. DRC is calculated using the following assumptions: • construction costs are calculated with reference to recent contract based constructions and the unit rate applied • useful lives of assets are calculated as the lesser of their physical life or the point where the asset is to be replaced for economic reasons. The capital goods price index (CGPI) has been used where indexation is appropriate. CGPI rates represent 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 2013 quarter extrapolated to June 2013.
Stormwater	30-Jun-12	Valuations are performed by council staff and peer-reviewed by AECOM New Zealand Ltd. Valuation is at DRC using straight line depreciation. Two methodologies have been used: • base life valuation approach where an asset remaining useful life is calculated as a difference between the base life of the asset and its age; a minimum remaining life of three years is assumed for assets aged greater than the assumed asset base life. This method is used for complex assets such as pump stations, ponds and soak hole systems, etc • condition based valuation approach where asset remaining lives are derived from asset conditions and asset deterioration profiles. This method is used for all other assets not included in the above. Regionalised unit replacement rates have been calculated. The replacement rates are adjusted per CGPI adjustment factors. The unit replacement rates have been regionalised based on similarities of catchment management areas for the pipes, manholes and channels to take into consideration the complexity of construction, size, material, ground or soil profile and location. The rates assume all other services exist. The replacement rates are sourced from actual completed contract work and purposeful unit rate studies. These rates are indexed annually. No opportunities for optimisation have been identified apart from the adjustment for the MEA for pipe materials.
Roads	30-Jun-14	Valuations are performed by an external valuer, ANA Group Ltd. Valuation is at DRC. DRC is calculated using the following assumptions: • estimation of the unit rate for construction of roading assets based on the most current contracted rates applicable to the Group • estimation of the remaining useful life of the asset. Assumptions consider the age of the roads and local conditions such as ground type, weather patterns and road usage.

15 Property, plant and equipment (continued)

Valuation methodology (continued)

Restricted

Class and category	Effective date of revaluation	Valuation approach and key assumptions
Parks and reserves	30-Jun-14	Large reserves have been valued by independent external valuers, QV Ltd. Valuations are undertaken in accordance with standards issued by the New Zealand Property Institute. Valuations for large reserves are based on a rural land value plus locational adjustment. Recognition is given to active/passive zone differentials which are based on the valuers' professional expertise and judgements. The management relies on the services of independent valuers to assess the carrying values of operational and restricted land and buildings assets and the remaining useful lives.
Buildings	30-Jun-14	Buildings have been valued by external valuers, QV Ltd. Valuations are undertaken in accordance with standards issued by the New Zealand Property Institute. Valuers use the DRC approach as no market exists due to the specialised nature of the buildings, with allowance for age, building condition and configuration.

Operational

Class and category	Effective date of revaluation	Valuation approach and key assumptions
Land and buildings	30-Jun-14	Valuations are performed by a panel of external valuers, being Bayleys Valuation Ltd, Beca Carter Hollings & Ferner Ltd, Telfer Young (Auckland Limited) and QV Ltd. Valuations are undertaken in accordance with standards issued by the New Zealand Property Institute. Operational land has been assessed at market value based on recent equivalent sales information. Where a market exists, operational buildings have been valued at market value based on recent sales information for similar properties in the same geographic area. Where no market exists due to the specialised nature of the buildings, values are determined using the DRC approach with allowance for age, building condition and configuration.
Marina structures	30-Jun-12	Valuations are performed by external valuers. Valuation is calculated using the discounted cash flow method.
Rolling stock	30-Jun-13	Valuations are performed by an external valuer. Valuation is at DRC. The DRC is calculated by reference to price quotations of modern equivalent assets, with allowance for age, asset deterioration, configuration and gauge. The estimated useful life is based on the expected replacement programme.
Wharves	30-Jun-12	Valuations are performed by a panel of external valuers. Valuation is at DRC, based on the incremental optimised replacement cost. Incremental optimisation means that optimisation is limited to the extent that it can occur in the normal course of business using commercially available technology. Typical 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	30-Jun-14	Valuations are performed by external valuers for items individually valued in excess of \$100,000 and internally for items individually valued below \$100,000. Internal valuations are peer-reviewed by an external valuer. The values are based on auction results from major international auction houses, auction catalogues and art sales publications. If no direct equivalent exists, value is based on works of a similar work and scale.

16 Intangible assets

Group

\$million	Computer software	Rights to acquire	Intellectual property	Goodwill	Work in progress	Other	Total
Net book value as at 1 July 2012	121	72	23	3	51	62	332
Additions	-	-	-	-	119	-	119
Transfers from work in progress	87	-	12	-	(100)	1	-
Amortisation	(36)	-	(11)	-	-	(3)	(50)
Disposals	(1)	-	-	-	-	(1)	(2)
Transfers*	(2)	11	2	-	-	(7)	4
As at 30 June 2013	169	83	26	3	70	52	403
As at 30 June 2013							
Cost/valuation	274	83	47	3	70	63	540
Accumulated amortisation	(105)	-	(21)	-	-	(11)	(137)
Net book value	169	83	26	3	70	52	403
Net book value as at 1 July 2013	169	83	26	3	70	52	403
Additions	-	-	-	-	91	-	91
Transfers from work in progress	41	-	8	-	(54)	5	-
Amortisation	(44)	-	(8)	-	-	(3)	(55)
Increases or decreases recognised in other comprehensive income	-	-	-	-	-	(1)	(1)
Disposals	(2)	-	-	-	-	-	(2)
Transfers*	20	-	-	-	-	13	33
As at 30 June 2014	184	83	26	3	107	66	469
As at 30 June 2014							
Cost/valuation	318	83	55	3	107	79	645
Accumulated amortisation	(134)	-	(29)	-	-	(13)	(176)
Net book value	184	83	26	3	107	66	469

Council

\$million	Computer software	Rights to acquire	Intellectual property	Other	Work in progress	Total
Net book value as at 1 July 2012	87	-	22	23	47	179
Additions	-	-	-	-	53	53
Transfers from work in progress	26	-	11	-	(37)	-
Amortisation	(19)	-	(10)	(1)	-	(30)
Disposals	(3)	-	-	(1)	-	(4)
Transfers*	-	11	-	(8)	-	3
As at 30 June 2013	91	11	23	13	63	201
As at 30 June 2013						
Cost/valuation	152	11	39	16	63	281
Accumulated amortisation	(61)	-	(16)	(3)	-	(80)
Net book value	91	11	23	13	63	201
Net book value as at 1 July 2013	91	11	23	13	63	201
Additions	-	-	-	-	57	57
Transfers from work in progress	19	-	7	-	(26)	-
Amortisation	(23)	-	(7)	(1)	-	(31)
Disposals	-	-	-	(1)	-	(1)
As at 30 June 2014	87	11	23	11	94	226
As at 30 June 2014						
Cost/valuation	171	11	46	15	94	337
Accumulated amortisation	(84)	-	(23)	(4)	-	(111)
Net book value	87	11	23	11	94	226

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

16 Intangible assets (continued)

Restrictions to title and security over intangible assets

There are no restrictions over the title of intangible assets, nor are any intangible assets pledged as security for liabilities (2013: \$nil).

Computer software

The amortisation period ranges from 1 to 8 years (2013: 1 to 8 years).

Rights to acquire

Included in this class is the right to acquire Vector Arena. The arena was completed in March 2007, and will be owned and operated by a third party for 40 years from this completion date, at which point it will revert to Regional Facilities Auckland 's (RFA) ownership. During the contract period, RFA will review the recoverable amount of Vector Arena annually to ensure that there is no impairment of the value. An impairment review is conducted annually.

The remaining contract periods range from 20 to 32 years (2013: 20 to 33 years).

Intellectual property

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

The amortisation period ranges from 4 to 10 years (2013: 4 to 10 years).

Other intangible assets

Other intangible assets include the following:

Community rights being the cost of contracted rights to access facilities that are not owned by the Group. These costs are amortised over the contracted right, ranging from 4 to 20 years (2013: 4 to 20 years).

A right to occupy has been recognised at its fair value on acquisition and is being amortised over the period of the underlying lease (63 years). The lease is for the land at each of the railway station sights along the Auckland passenger rail network. The right to occupy in the underlying lease is due to expire in 2070.

Intangible assets under development

Intangible assets under development include computer software. These are held at cost.

Contractual commitments for the acquisition of intangible assets

The Group has no contractual commitments for the acquisition of intangible assets (2013: \$nil).

17 Investment property

The movement in investment property is as follows:

\$million	Group		Council	
	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Opening balance	421	371	78	65
Net increase/(decrease) in fair value of investment property	10	29	7	13
Additions	-	22	-	-
Disposals	(1)	(1)	-	-
Transfers (to)/from property, plant and equipment	27	-	9	-
Closing balance	457	421	94	78

Investment property includes land, commercial buildings and water space licences.

Investment property is held at fair value and revalued annually. Revaluations are performed by independent valuers with appropriate recognised professional qualifications and recent experience in Auckland and in the category being valued. Valuations are dated 30 June of each respective year.

Method and significant assumptions applied to determine the fair value of investment property are as follows:

- Properties are valued individually.
- Land is valued as vacant under freehold or leasehold tenure, as appropriate. The value of land assets included in investment property is \$170 million (2013: \$143 million) for the Group and \$92 million (2013: \$77 million) for the council.
- Valuations consider the size, contour, quality, location, zoning, designation and current and potential use. When compared to recent sales statistics for similar land the land value rates applied in the valuations are:
 - o city centre properties \$218 to \$1,480 per square metre (m²) (2013: \$170 to \$980 per m²).
 - o suburban properties \$150 to \$667 per m² (2013: \$150 to \$700 per m²).
- Commercial property valuations for the Group at \$95 million (2013: \$81 million) and the council \$2 million (2013: \$1 million) are based on indicative yields derived from current prices of comparable property in an active market. Yields used in the valuation are 6% to 8% (2013: 6% to 9%) for city centre properties.
- Water space licence valuations for the Group are determined using the discounted cash flow method based on yields of 8% (2013: 9%).

The discounted cash flow method considers the future rental income from existing and anticipated new tenants, any residual value of the Group's interest in the investment property less anticipated capital expenditure.

Restrictions to title and security over investment property

The restrictions over the titles of investment property are:

Investment property address	Value (\$million)	Restriction reason
10 Fremlin Pl, Avondale	1	Stipulated by the trust deed of Leys Property Trust
40 Henderson Valley Rd and 10-14 Hickey Ave, Henderson	9	Memo of encumbrance until 1 September 2014

There was no investment property pledged as security for liabilities during the year (2013: none).

18 Investment in other entities

	Group		Council	
\$million	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Investment in subsidiaries	-	-	20,542	20,234
Investment in associates	840	750	5	3
Investment in jointly-controlled entities	6	3	-	-
Total investment in other entities	846	753	20,547	20,237

18.1 Investment in subsidiaries

Significant subsidiaries of the council comprise the following:

Name	Principal activity and nature of relationship where there is no direct ownership	Percentage ownership %	
		2014	2013
Auckland Council Investments Ltd	Manages the Group's investment assets and holds investments in Auckland International Airport Ltd and Ports of Auckland Ltd.	100	100
Auckland Transport	Ow ns and manages the Auckland region's transport services and infrastructure. * Auckland Transport is a body corporate with perpetual succession and is treated under the LGA2002 as if the council is its sole shareholder.	*	*
Watercare Services Ltd	Ow ns and manages the Auckland region's w ater and w astew ater assets.	100	100
Auckland Waterfront Development Agency Ltd	Ow ns and manages a large portion of the Auckland w aterfront.	100	100
Auckland Council Property Ltd	Manages the council's commercial properties.	100	100
Auckland Tourism, Events and Economic Development Ltd	Manages projects for economic development, tourism and events promotion in the Auckland region.	100	100
Regional Facilities Auckland	Ow ns and manages the Auckland region's sports, leisure, entertainment and arts, culture and heritage venues. * Regional Facilities Auckland is a charitable trust of w hich Regional Facilities Auckland Ltd, a 100% ow ned subsidiary of the council, is the sole trustee.	*	*
Highbrook Park Trust	Ow ns and manages public land parcels around Highbrook. * The council is the settlor of this trust.	*	*
Arts Regional Trust	Contributes to the development of a flourishing arts and culture sector in the Auckland region. * The council is the settlor of this trust.	*	*

In addition to the above, significant subsidiaries of the Group comprise the following:

Name	Principal activity and nature of relationship where there is no direct ownership	Percentage ownership %	
		2014	2013
Airport Shares (Auckland) Ltd	Holds a significant investment in Auckland International Airport Ltd.	100	100
Airport Shares (Manukau) Ltd	Holds a significant investment in Auckland International Airport Ltd.	100	100
Ports of Auckland Ltd	Port operator.	100	100
North Shore Events Centre Trust Board	Ow ns and manages North Shore Events Centre. * Regional Facilities Auckland, one of the subsidiaries of the council, is the settlor of this trust.	*	*
Westhaven (Existing Marina) Trust	Operates the existing Westhaven Marina. *Westhaven Marina Ltd, a 100% ow ned subsidiary of Auckland Waterfront Development Agency Ltd (a subsidiary of the council), is the corporate trustee of this trust.	*	*

All subsidiaries have a balance date of 30 June and are resident in New Zealand.

18 Investment in other entities (continued)

Change in shareholding of a subsidiary

On 1 August 2013 Auckland Tourism Event and Economic Development Ltd, the shareholder of New Zealand Food Innovation Auckland Ltd, sold 66.7% of shares to Callaghan Innovation Ltd, a Crown-owned entity leaving the Group with a shareholding of 33.3% at 30 June 2014.

Significant restrictions

Under section 24(1) (a) of the Local Government (Auckland Transitional Provisions) Act 2010, the council must remain the sole owner of Watercare Ltd (Watercare) until 30 June 2015. Watercare is restricted by LGAA 2009 Section 57(1)(b) from paying any dividend or distributing any surplus directly or indirectly to the council.

18.2 Investment in associates and jointly-controlled entities

The council has interests in the following jointly-controlled entities: Waste Disposal Services Ltd (50%) and Araparera Forestry Joint Venture (70%).

In addition, the Group has interests in these jointly-controlled entities: New Zealand Food Innovation Auckland Ltd (33.3%), Sea Fuels Ltd (50%), North Tugz Ltd (50%) and PortConnect Ltd (50%).

The Group's significant associate is Auckland International Airport Ltd (AIAL) and its key financial information is:

\$million	Total assets	Total liabilities	Gross revenue	Net profit after tax	Percentage of interest held
As at 30 June 2014					
Auckland International Airport Ltd	4,734	1,815	476	216	22.4%
As at 30 June 2013					
Auckland International Airport Ltd	3,939	1,439	448	178	22.4%

Other than AIAL, none of the Group's associates or jointly-controlled entities are material.

The amounts presented above are gross amounts taken directly from AIAL's financial statements. No adjustments have been made for differences in accounting policies.

The council also has interests in the following associates: New Lynn Central Ltd Partnership (42%) and Tamaki Redevelopment Company Ltd (41%).

All associates and jointly-controlled entities have a balance date of 30 June and are resident in New Zealand.

Disposal of an associate

An associate, United Containers Ltd, in which the Group held a 27.5% shareholding, was disposed of on 3 October 2013.

Contingent liabilities of associates and jointly-controlled entities

Contingent liabilities of the Group's associates and jointly-controlled entities are not significant to the Group.

19 Employee entitlements

	Group		Council	
\$million	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Current				
Short-term employee benefits	72	66	43	40
Other	5	5	4	4
Total current	77	71	47	44
Non-current				
Other	5	6	2	2
Total non-current	5	6	2	2
Total employee entitlements	82	77	49	46

20 Payables and accruals

	Group		Council	
\$million	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Current				
Trade payables and accruals	498	441	203	171
Revenue received in advance	36	45	14	30
Deposits and bonds	32	32	31	32
Amounts due to related parties	-	-	203	147
Other	49	21	20	14
Total current	615	539	471	394
Non-current				
Revenue received in advance	31	26	-	-
Amounts due to related parties	-	-	53	46
Total non-current	31	26	53	46
Total payables and accruals	646	565	524	440

Payables and accruals are non-interest bearing and normally settled on 30-day terms; therefore the carrying value approximates fair value.

21 Income tax expense

	Group		Council	
\$million	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Components of income tax expense/(benefit)				
Current tax	(24)	8	-	-
Deferred tax	34	6	-	-
Total income tax expense	10	14	-	-
Relationship between income tax and accounting surplus/(deficit)				
Net surplus/(deficit) before tax	686	271	656	(304)
Less net (surplus)/deficit from non-taxable activities	(669)	(181)	(656)	304
Surplus before tax	17	90	-	-
Prima facie income tax at 28% (2013: 28%)	5	25	-	-
Prior period adjustment	(18)	(2)	-	-
Tax effect of permanent differences	41	28	-	17
Associates' income net of tax	-	(1)	-	-
De-recognition of deferred tax liability	-	(4)	-	-
Loss offset	(11)	-	-	1
Effect of deferred tax not recognised - current year	30	-	-	-
Effect of deferred tax not recognised - prior year	1	-	-	-
Tax credits	(30)	(32)	-	(18)
Reversal of tax liability for prior year tax loss offsets	(8)	-	-	-
Total income tax expense	10	14	-	-

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

22 Deferred tax assets/(liabilities)

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

	Group		Council	
\$million	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Deferred tax assets				
Deferred tax assets to be recovered after more than 12 months	10	11	-	-
Deferred tax liabilities				
Deferred tax liabilities to be recovered after more than 12 months	(1,019)	(977)	-	-
Deferred tax liabilities to be recovered within 12 months	-	(9)	-	-
Net deferred tax assets/(liabilities)	(1,009)	(975)	-	-

22 Deferred tax assets/(liabilities) (continued)

The movement in deferred tax assets/liabilities is as follows:

\$million	Property, plant and equipment	Other	Tax losses carried forward	Total
Opening balance	(1,068)	30	144	(894)
Credited/(charged) to surplus/(deficit)	(35)	(1)	30	(6)
Credited/(charged) to other comprehensive income	(73)	(2)	-	(75)
Balance at 30 June 2013	(1,176)	27	174	(975)
Opening balance	(1,176)	27	174	(975)
Acquisition of subsidiary	1	-	-	1
Credited/(charged) to surplus/(deficit)	(34)	(8)	11	(31)
Credited/(charged) to other comprehensive income	(3)	(1)	-	(4)
Balance at 30 June 2014	(1,212)	18	185	(1,009)

23 Imputation credits

\$million	Group		Council	
	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Imputation credits available for use in subsequent reporting periods	144	111	-	-

A tax consolidated Group was formed from 1 July 2013; the tax consolidated Group does not include all of the entities of the Group.

The \$144 million of imputation credits relates to the consolidated financial reporting Group. The total imputation credits available for use by each of the members of the tax consolidated Group is \$114 million.

24 Provisions

\$million	Group		Council	
	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Current portion				
Weathertightness	51	59	51	59
Contaminated land and closed landfills	7	7	7	7
Other	26	28	24	24
Total current portion	84	94	82	90
Non-current portion				
Weathertightness	212	302	212	302
Contaminated land and closed landfills	64	73	63	73
Other*	10	19	10	17
Total non-current portion	286	394	285	392
Total provisions	370	488	367	482

*Included in other (non-current) are provisions for financial guarantees of \$1 million (2013: \$14 million) for the Group.

24 Provisions (continued)

Movement in the carrying value of provisions:

Group

\$million	Weathertightness	Contaminated land and closed landfills		Other	Total
Opening balance	417	94	33		544
Additional provisions and increases to existing provisions	9	3	18		30
Amounts used	(59)	-	(2)		(61)
Reversal of previously recognised provisions	(23)	(17)	(2)		(42)
Change in discount rate	(2)	-	-		(2)
Unwind of discount rate	19	-	-		19
Balance at 30 June 2013	361	80	47		488
Opening balance	361	80	47		488
Additional provisions and increases to existing provisions	8	1	14		23
Amounts used	(63)	-	(9)		(72)
Reversal of previously recognised provisions	(61)	(10)	(16)		(87)
Unwind of discount rate	18	-	-		18
Balance at 30 June 2014	263	71	36		370

Council

\$million	Weathertightness	Contaminated land and closed landfills		Other	Total
Opening balance	417	94	30		541
Additional provisions and increases to existing provisions	9	3	12		24
Amounts used	(59)	-	-		(59)
Reversal of previously recognised provisions	(23)	(17)	(1)		(41)
Change in discount rate	(2)	-	-		(2)
Unwind of discount rate	19	-	-		19
Balance at 30 June 2013	361	80	41		482
Opening balance	361	80	41		482
Additional provisions and increases to existing provisions	8	-	13		21
Amounts used	(63)	-	(5)		(68)
Reversal of previously recognised provisions	(61)	(10)	(15)		(86)
Unwind of discount rate	18	-	-		18
Balance at 30 June 2014	263	70	34		367

24.1 Provision for weathertightness

This represents the Group's estimated obligation to contribute towards the remediation of buildings that received a code compliance certificate but have building defects that mean they are not weathertight. The provision comprises active, reported and unreported claims.

Active claims are those which have been lodged with the council or the Weathertight Homes Resolution Service (WHRS) and are progressing through the resolution process. The WHRS is a central government service established under the Weathertight Homes Resolution Services Act 2006. It offers a Financial Assistance Package (FAP) to eligible leaky homeowners and sees central government contributing 25% toward the cost of repairing eligible leaky homes with the possibility of an additional 25% contribution by the relevant council. Under this scheme the relevant council's contribution is capped at 25% of eligible costs and is dependent on its involvement in the consent process. While the council has opted for this scheme it does not preclude eligible homeowners not registered with the WHRS from seeking compensation from the council directly.

24 Provisions (continued)

24.1 Provision for weathertightness (continued)

Reported claims are those that have been reported to the council or WHRS and 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.

The take-up rate for compensation, the cost of repair per eligible buildings and the discount and inflation rates are applied to calculate the present value of the estimated future cash outflows. The reported provision is based on calculations provided by independent actuaries.

Key assumptions

The provision is made up of estimated costs, net of insurance recoveries associated with:

Active claims	\$87 million (2013: \$102 million)
Reported and unreported claims	\$168 million (2013: \$241 million)

There is a higher degree of certainty over estimates for active claims as they are currently progressing in the resolution process.

For reported and unreported claims the key assumptions are:

Number of weathertightness failures in Auckland and percentage of successful claims

The council assesses the percentage of dwellings built in the last 10 years which may experience a weathertightness problem likely to result in a successful claim.

Participation in the WHRS scheme

This assumption is based on claim size, settlement amounts relative to the current scheme and suburb data.

Settlement level

This relates to the expected settlement award from the resolution process for those claims not assumed to fall under the WHRS. The amount is expected to increase over time.

Amount claimed

This assumption is derived from the claims settled to date. The extent to which this varies in the future, either through an increase or decrease, will cause the ultimate cost to vary.

Timing of claim payments

It is expected that the majority of weathertightness claims will be resolved within the next six years.

24 Provisions (continued)

24.1 Provision for weathertightness (continued)

Possible reimbursement

The council has some insurance cover for the cost of weathertightness claims. The insurance provider is Riskpool, a mutual liability fund created by New Zealand local authorities to provide professional indemnity and public liability protection for the council and CCOs. An insurance recovery asset of \$8 million (2013: \$18 million) has been recognised. See note 12 for further information. There is no insurance cover available for claims received after 1 July 2009.

Sensitivity to assumptions

The estimated costs are particularly sensitive to certain assumptions. An increase of 10% in participation in the FAP scheme would result in a decrease in provision of \$14 million from the central estimate (2013: \$17 million). A decrease of 10% in the assumption would result in a corresponding increase in the provision.

An increase of 10% in an amount claimed, settlement level award or council contribution to settlement would result in an increase in the provision of \$25 million from the central estimate (2013: \$34 million). A decrease of 10% in the assumption would result in a corresponding decrease in the provision.

24.2 Provision for contaminated land and closed landfills

The Group has responsibility under resource consents to monitor and remediate contamination on its land and closed landfill sites. In addition, the Group has a constructive obligation to ensure its land is safe for public use.

Resource consents specific to remediation works usually apply for a short period; they are aligned to the proposed timeframe to complete the remediation works. Consents for structures and for residual or existing contamination discharges apply for longer terms of up to 30 years and could be subject to renewal unless the contamination levels have reduced and no longer warrant consents.

The Group has provided for sites only 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.

Critical assumptions made include the extent of the required monitoring and remediation, the period over which monitoring and remediation is required and the expected costs. The reported provision is based on calculations provided by independent actuaries.

Key assumptions

Identified sites

The provision is limited to sites where the Group holds a resource consent. The provision does not include property with unidentified contamination issues or where the current land-use does not require monitoring or remediation.

24 Provisions (continued)

24.2 Provision for contaminated land and closed landfills (continued)

Expected future costs

Expected future costs are estimated by considering the expected level of work required to meet each issued resource consent and the current cost of identified monitoring and remediation work.

Timing

Estimated costs are assessed over 30 years, being the average of the resource consent periods.

Land-use

The provision assumes there is no change in land-use and discharges complying with consent conditions.

The provision is based on the best estimate of information available when preparing the calculation and is reviewed at each reporting period.

24.3 Other provisions

Financial guarantees

The council has provided a guarantee for certain Watercare borrowings. See note 30.1.1 for further information.

The council is listed as a guarantor to loan arrangements of a number of community organisations. In the event the community organisation defaults the council is obligated to make loan payments. The risk of default has been assessed and is dependent on the financial stability of each community organisation.

Legal claims

The Group is subject to certain legal claims. For each claim the likelihood of payment has been assessed and provision recognised where it is probable the Group will be found liable.

Provisions are based on assessed costs by legal counsel taking into account claims experience.

25 Borrowings

	Group		Council	
\$million	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Current				
Secured borrowings	886	926	886	926
Unsecured borrowings	285	359	4	-
Finance lease liabilities	-	2	-	2
Total current borrowings	1,171	1,287	890	928
Non-current				
Secured borrowings	4,549	3,774	4,549	3,774
Unsecured borrowings	620	818	-	-
Finance lease liabilities	1	2	-	-
Total non-current borrowings	5,170	4,594	4,549	3,774
Total borrowings	6,341	5,881	5,439	4,702
Interest rates				
Fixed rate	3,758	3,761	3,476	3,159
Floating rate	2,583	2,120	1,963	1,543
Total borrowings	6,341	5,881	5,439	4,702

The Group manages borrowings on a portfolio basis. Funding occurs through domestic retail and wholesale debt issuance, the LGFA, and via foreign debt markets under a secured medium-term note programme.

This diversification coupled with limiting the levels of debt maturing at any point in time mitigates exposure to both concentration and refinancing risks.

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

Some members of the Group have undertaken a negative pledge to limit the extent to which the Group can give security to lenders and require the Group to ensure certain financial ratios are achieved (2014 and 2013 achieved for both Group and council).

Also included in the Group's unsecured borrowings is \$125 million of redeemable preference shares (2013: \$125 million) issued by Airport Shares (Manukau) Ltd.

At 30 June 2014, interest rates on NZD fixed rate borrowings ranged from 4% to 8% (2013: 3% to 9%) for the Group and 4% to 8% (2013: 3% to 9%) for the council. The weighted average interest rate on floating rate borrowings is 4.7% (2013: 3.9%) for the Group and 4.8% (2013: 3.7%) for the council. Refer to note 26.1.1 for interest sensitivity analysis.

The weighted average cost of funds for the Group's borrowings as at 30 June 2014 is 5.6% (2013: 5.3%).

The council's foreign denominated debt is hedged to eliminate all foreign exchange risk. The effective NZD interest rate as at 30 June 2014 was 5% (2013: 5%). This reflects a mix of 67% fixed and 33% floating.

Default or breach of covenants

There were no defaults or breaches by the Group on any borrowing arrangement during the current year (2013: none).

26 Financial risk management

The Group's activities expose it to a variety of financial risks (market risk, credit risk and liquidity risk). The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Derivative financial instruments such as interest rate swaps and forward foreign exchange contracts are used to hedge certain risk exposures.

Financial risks are managed under the Treasury Management Policy approved by the council which incorporates a liability management policy and an investment policy. These policies do not allow any transactions that are speculative in nature to be entered into.

26.1 Market risk

Foreign exchange risk

Foreign exchange risk arises when the cost of a product or service priced in a foreign currency rises due to a deterioration in the exchange rate between the NZD and relevant foreign currency, between committing to incur the expenditure and when payment is actually made. The Group is able to mitigate the risk of adverse movements in exchange rates by entering into forward foreign exchange contracts.

The council has two offshore borrowing programmes, a United States dollar (USD) \$2.5 billion secured medium-term note programme and an Australian dollar \$1 billion Australian debt issuance programme. To date the council has borrowed only under the USD secured medium-term notes programme. All foreign exchange risk is mitigated by entering cross currency interest rate swaps over the life of the borrowings.

Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Equity price risk arises on investments in unit trusts and listed share investments, which are classified as fair value through surplus or deficit.

Interest rate risk

Interest rate risk is the risk that the actual cost of borrowing is substantially different to budget. As a result, the actual interest expense will be significantly different to the projected interest expense in the Group's Annual Plan and Long-term Plan 2012-2022 (LTP). If interest rates are higher than budget there could be a negative impact on the Group's surplus or deficit. If interest rates are lower than budget there could be a positive impact.

The council manages interest rate risk on behalf of the Group apart from Watercare and Ports of Auckland, which manage portfolios of debt and interest rate risk under their own treasury management policies. Ports of Auckland is not reliant on council funding. Further information regarding Watercare and Ports of Auckland's treasury management policies can be found in their respective annual reports. The council's Treasury Management Policy contains the interest rate exposure policy which provides the objectives and processes for managing these risks and how compliance with the policy is measured.

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

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

26 Financial risk management (continued)

26.1 Market risk (continued)

The council targets having between 50% and 95% of total debt at a fixed rate and it allows hedging in advance of drawing down new debt. At 30 June 2014 fixed rate debt was 84% (2013: 92%). The council utilises forward-starting interest rate swaps under the Treasury Management Steering Group guidance to lock in the base rate for projected future borrowings. The council will hedge in advance of drawing down new debt based on:

- the expected level of future borrowings
- forecast cost of borrowing contained in the LTP
- outlook for interest rates

At 30 June 2014 the Group has the following forward start swaps:

Group					
\$million	Financial year				
Effective start date	2015	2016	2017	2018	2021
Term					
2 years	-	-	30	-	-
3 years	-	30	-	-	-
4 years	55	20	30	40	-
5 years	440	250	50	-	35
6 years	40	40	-	-	-
7 years	320	320	365	100	-
8 years	30	40	-	40	-
9 years	-	40	-	-	-
10 years	300	50	275	150	-
13 years	30	-	-	-	-
14 years	60	-	-	-	-
Total	1,275	790	750	330	35
Average rate	4.7%	5.0%	5.5%	5.3%	5.7%

Council				
\$million	Financial year			
Effective start date	2015	2016	2017	2018
Term				
5 years	350	250	50	-
7 years	300	250	325	100
10 years	300	50	275	150
Total	950	550	650	250
Average rate	4.5%	4.9%	5.5%	5.3%

26 Financial risk management (continued)

26.1 Market risk (continued)

The tables on the previous page outline the notional values of forward-start swaps the Group entered into and the financial years they will become effective. The terms are the durations for which the forward-start swaps will be effective when they commence at a future date. For example, in the Group's table, forward-start swaps with notional values of \$300 million will be effective from 2015 for a duration of 10 years.

The council's table excludes notional forward-start swaps of \$217 million which the council has entered into on behalf of Auckland Transport (2013: \$355 million).

The Group manages investments' interest rate risk on a portfolio basis. The interest rate risk on each investment portfolio is spread over time, with the weighted average term to maturity of each investment portfolio being maintained within the limits of zero and five years, unless otherwise approved by the Treasury Management Steering Group.

26.1.1 Sensitivity analysis

The analyses below illustrate the potential surplus or deficit and equity (excluding accumulated funds) impact from possible market movements, with all other variables held constant, calculated using the Group's financial instrument exposure at balance date.

Foreign exchange risk

The foreign exchange risk sensitivity is the reasonably possible movement of the relevant foreign currencies against the NZD, with all other variables held constant.

The council has borrowed Australian dollar, Swiss franc, Norwegian krone and Euro denominated fixed rate bonds. The foreign exchange risk associated with these borrowings has been hedged with cross-currency interest rate swaps, hence there is no impact on the surplus or deficit.

For the Group, a 5% downward/upward movement in NZD against USD will result in a \$10 million increase/\$9 million decrease (2013: \$17 million increase/\$15 million decrease) in equity.

26 Financial risk management (continued)

26.1 Market risk (continued)

26.1.1 Sensitivity analysis (continued)

Interest rate risk

The interest rate risk sensitivity is based on a reasonably possible movement in interest rates, with all other variables held constant, measured as a basis points (bps) movement. For example, a decrease of 100bps is equivalent to a decrease in market interest rates of 1%.

The sensitivity for derivatives (interest rate swaps) has been calculated using a derivative valuation model based on a parallel shift in interest rates of +/-100bps.

\$million	Group				Council			
	-100bps Surplus/ (deficit)	Equity	+100bps Surplus/ (deficit)	Equity	-100bps Surplus/ (deficit)	Equity	+100bps Surplus/ (deficit)	Equity
2014								
Cash and cash equivalents and term deposits	(2)	-	2	-	(2)	-	2	-
Derivative financial instruments	(188)	-	179	-	(119)	-	116	-
Loans to related parties	-	-	-	-	(9)	-	9	-
Fixed rate borrowings (repricing w ithin next 12 months)	6	-	(6)	-	5	-	(6)	-
Floating rate borrowings	17	-	(17)	-	14	-	(14)	-
Other financial assets	(1)	-	1	-	(1)	-	1	-
Total sensitivity to interest rate risk	(168)	-	159	-	(112)	-	108	-
2013								
Cash and cash equivalents and term deposits	(3)	-	3	-	(3)	-	3	-
Derivative financial instruments	(244)	7	222	(5)	(172)	11	158	(9)
Loans to related parties	-	-	-	-	(9)	-	9	-
Fixed rate borrowings (repricing w ithin next 12 months)	5	-	(5)	-	3	-	(3)	-
Floating rate borrowings	21	-	(21)	-	15	-	(15)	-
Total sensitivity to interest rate risk	(221)	7	199	(5)	(166)	11	152	(9)

There is also interest rate risk on bond assets, bank debt and community loans. These are not disclosed in the table above as these risks are not material at balance date.

26 Financial risk management (continued)

26.1 Market risk (continued)

26.1.1 Sensitivity analysis (continued)

Equity price risk

Equity price risk sensitivity is calculated based on a reasonably possible movement in the relevant listed shares held by the entity.

Included in the Group's financial assets are unit trusts and listed shares, held for strategic reasons. The sensitivity for these financial assets has been calculated using +/- 5% change in the value of the unit price or listed share price.

	Group				Council			
	-5%		+5%		-5%		+5%	
\$million	Surplus/ (deficit)	Equity	Surplus/ (deficit)	Equity	Surplus/ (deficit)	Equity	Surplus/ (deficit)	Equity
2014								
Other financial assets	(16)	(1)	16	1	(16)	-	16	-
Total sensitivity to equity price risk	(16)	(1)	16	1	(16)	-	16	-
2013								
Other financial assets	(15)	(2)	15	2	(15)	-	15	-
Total sensitivity to equity price risk	(15)	(2)	15	2	(15)	-	15	-

26.2 Credit risk

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group 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 various investments.

To safeguard against loss through poor credit quality, limits are applied to the Group's aggregate exposure to counterparties (and groups of counterparties) within specified credit rating bands, as determined by an international credit rating agency. Where Standard & Poor's ratings are available for assets with credit risk, the Group aims to hold assets with a credit rating of single A or better. The only unrated counterparties that the Group may invest in are other New Zealand local government bodies. The Group's Treasury Management Steering Group reviews and approves strategic credit risk limits annually.

At balance date, \$391 million (2013: \$370 million) of assets with credit risk held by the Group have ratings of single A or better and \$1.2 billion (2013: \$829 million) for the council.

The council has entered into a collateral agreement (Credit Support Annex – CSA) to mitigate credit risk on one cross-currency interest rate swap transaction. By paying or receiving collateral, the council has reduced the credit exposure associated with the derivative transaction.

26 Financial risk management (continued)

26.2 Credit risk (continued)

Maximum exposure to credit risk

The Group's maximum credit exposure of any financial instrument at any time is the carrying amount where that instrument is an asset. All derivatives are carried at fair value in the statement of financial position. Receivables are presented net of an allowance for estimated doubtful debts.

In the course of normal business the council has credit exposure to unrated counterparties i.e. rates receivables, trade receivables, related party receivables and community loans. There is no concentration of credit risk around rates and trade receivables as there are a large number of ratepayers and customers and the council has a statutory right to funds due. At balance date, the community loan balances are not material.

The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Receivables mainly arise from 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 or external credit ratings.

Credit risk attaching to rates receivables is minimised as a result of the council's statutory collection powers under the Local Government (Rating) Act 2002. Refer to note 12 for the ageing profile of receivables.

In addition to the above credit exposures, the Group is exposed to financial guarantees issued to related parties and various other organisations. At 30 June 2014, total financial guarantees for the Group are \$2.6 billion (2013: \$1.7 billion) and \$3.2 billion for the council (2013: \$2.5 billion). Certain guarantees have been provided for in the provisions note for the Group. Refer to note 24.3 and note 30.1.1 for further information.

Credit quality of financial assets

The credit quality of financial assets that are neither past due or impaired can be assessed by reference to Standard & Poor's credit ratings (if available) or to historical information about counterparty default rates.

All counterparties without credit ratings have not defaulted in the past with the exception of certain community loans within other financial assets. Community loans for the counterparty with previous defaults at 30 June 2014 was 8.7% of total community loan balances (2013: 8.4%).

The council holds unit trust assets of \$291 million (2013: \$274 million). These unit trusts are composed of portfolios of debt and equity investments managed by fund managers on behalf of the council. They do not have credit ratings at a portfolio level; however, the management of the unit trust assets are subject to an internal operational investment policies and objectives document. This document details the investment strategy, liquidity rules, performance goals and responsibilities of participants. Together with the Group's statement of investment policies and objectives, the Group ensures prudent management of a well-diversified portfolio of assets.

26 Financial risk management (continued)

26.3 Liquidity risk

The Group manages borrowings in accordance with its funding and financial policies including a liability management policy.

Liquidity risk is the risk that the Group will encounter difficulty raising funds to meet commitments as they fall due. To ensure the Group has sufficient liquidity (cash available) at all times, the total of the Group's unutilised committed borrowing facilities and its liquid investments must exceed forecast net cash outflow over the next six months.

Prudent liquidity risk management implies maintaining sufficient cash and liquid assets, the availability of funding through diversified sources and an adequate amount of committed credit facilities.

The council is exposed to liquidity risk as a guarantor of all of the LGFA's borrowings. This guarantee becomes callable in the event of the LGFA failing to pay its borrowings when they fall due. Information about this exposure is explained in note 30.1.1.

In meeting its liquidity requirements, the Group maintains a portfolio of investments that can be liquidated if required. This includes the unit trusts assets held by the Group.

To minimise the risk that the Group is not able to raise new borrowings, or refinance existing borrowings at acceptable credit margins, the Group's borrowings are spread over a range of maturities. The maximum value of outstanding borrowings that may mature over any 12 month period is established by the Treasury Management Steering Group annually when approving the council's strategic risk limits.

The council also uses committed bank facilities to manage its liquidity risk. The council has its main overdraft facility with the BNZ against a group of accounts in a set-off arrangement. The facility limit for this set-off arrangement is \$10 million (2013: \$10 million). The interest charged is the bank's cost of funding plus a margin. This rate is adjusted from time to time as advised by the BNZ. The Group has additional overdraft facilities in place totalling \$29 million (2013: \$27 million).

In addition, the Group has undrawn bank facilities of \$1.2 billion (2013: \$1.2 billion) and the council has an undrawn syndicated committed cash advance facility of \$1 billion (2013: \$1 billion) which can be drawn at any time and are generally used for short-term funding requirements. The facilities mature between August 2014 and August 2016.

Contractual maturity analysis

The following tables analyse the Group's financial assets and liabilities by maturity groupings that are from the period remaining at balance date until the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate of the instrument at the balance date. The amounts disclosed are contractual undiscounted cash flows. For both forward foreign exchange contracts and cross currency interest rate swaps, the foreign currency leg of the cash flows is translated at the spot rate as at 30 June.

Financial guarantees are included at the maximum amount of the guarantee at balance date. This is only payable on event of default of the guaranteed party.

26 Financial risk management (continued)

26.3 Liquidity risk (continued)

Group 2014							Total
\$million	Carrying amount	On demand	< 1 year	1-2 years	2-5 years	> 5 years	contractual cash flows
Financial assets							
Cash and cash equivalents	206	206	-	-	-	-	206
Receivables (excluding prepayments)	321	-	270	51	-	-	321
Other financial assets	469	345	56	21	28	29	479
Derivative financial assets net settled							
Interest rate sw aps	95	-	5	14	53	48	120
Total financial assets	1,091	551	331	86	81	77	1,126
Financial liabilities							
Non-derivative financial liabilities							
Bank overdraft	4	4	-	-	-	-	4
Payables and accruals (excluding income received in advance)	579	-	579	-	-	-	579
Secured borrowings	5,435	-	1,116	577	2,078	3,547	7,318
Unsecured borrowings	780	-	316	107	437	-	860
Finance lease liabilities	1	-	-	-	-	2	2
Financial guarantees	2,564	2,564	-	-	-	-	2,564
Redeemable preference shares	125	-	13	127	-	-	140
Derivative financial liabilities net settled							
Interest rate sw aps	128	-	31	19	41	38	129
Derivative financial liabilities gross settled							
Forward foreign exchange contracts	42						
Inflow s		-	(190)	(10)	(2)	-	(202)
Outflow s		-	234	13	2	-	249
Cross-currency interest rate sw aps	107						
Inflow s		-	(35)	(36)	(107)	(1,523)	(1,701)
Outflow s		-	68	77	247	2,054	2,446
Total financial liabilities	9,765	2,568	2,132	874	2,696	4,118	12,388

26 Financial risk management (continued)

26.3 Liquidity risk (continued)

Group (continued)							
2013							
\$million	Carrying amount	On demand	< 1 year	1-2 years	2-5 years	> 5 years	Total contractual cash flows
Financial assets							
Cash and cash equivalents	336	336	-	-	-	-	336
Receivables (excluding prepayments)	335	-	263	72	-	-	335
Other financial assets	417	345	29	5	23	20	422
Derivative financial assets net settled							
Interest rate sw aps	68	-	9	1	25	59	94
Derivative financial assets gross settled							
Cross-currency interest rate sw aps	11	-	-	-	-	-	-
Inflow s	-	-	3	3	9	174	189
Outflow s	-	-	(5)	(7)	(25)	(203)	(240)
Total financial assets	1,167	681	299	74	32	50	1,136
Financial liabilities							
Non-derivative financial liabilities							
Bank overdraft	3	3	-	-	-	-	3
Payables and accruals (excluding income received in advance)	494	-	494	-	-	-	494
Secured borrow ings	4,700	-	1,136	903	1,609	2,256	5,904
Unsecured borrow ings	1,052	-	404	379	94	285	1,162
Finance lease liabilities	4	-	2	1	-	1	4
Financial guarantees	14	-	1,682	-	-	-	1,682
Redeemable preference shares	125	-	13	13	127	-	153
Derivative financial liabilities net settled							
Interest rate sw aps	181	-	58	40	59	47	204
Derivative financial liabilities gross settled							
Forw ard foreign exchange contracts	22	-	-	-	-	-	-
Inflow s	-	-	(119)	(181)	(13)	-	(313)
Outflow s	-	-	129	201	15	-	345
Cross-currency interest rate sw aps	25	-	-	-	-	-	-
Inflow s	-	-	(14)	(14)	(43)	(416)	(487)
Outflow s	-	-	16	18	64	477	575
Total financial liabilities	6,620	3	3,801	1,360	1,912	2,650	9,726

26 Financial risk management (continued)

26.3 Liquidity risk (continued)

Council 2014							
\$million	Carrying amount	On demand	< 1 year	1-2 years	2-5 years	> 5 years	Total contractual cash flows
Financial assets							
Cash and cash equivalents	157	157	-	-	-	-	157
Receivables (excluding prepayments)	190	-	190	-	-	-	190
Other financial assets	1,838	315	322	246	459	1,297	2,639
Derivative financial assets net settled							
Interest rate sw aps	96	-	3	13	49	45	110
Derivative financial assets gross settled							
Forw ard foreign exchange contracts	41						
Inflow s		-	223	13	2	-	238
Outflow s		-	(180)	(10)	(2)	-	(192)
Total financial assets	2,322	472	558	262	508	1,342	3,142
Financial liabilities							
Non-derivative financial liabilities							
Payables and accruals (excluding income received in advance)	510	-	510	-	-	-	510
Secured borrow ings	5,435	-	1,116	577	2,078	3,547	7,318
Unsecured borrow ings	4	-	4	-	-	-	4
Financial guarantees	3,155	3,155	-	-	-	-	3,155
Derivative financial liabilities net settled							
Interest rate sw aps	65	-	16	11	26	24	77
Derivative financial liabilities gross settled							
Forw ard foreign exchange contracts	41						
Inflow s		-	(180)	(10)	(2)	-	(192)
Outflow s		-	223	13	2	-	238
Cross-currency interest rate sw aps	107						
Inflow s		-	(35)	(36)	(107)	(1,523)	(1,701)
Outflow s		-	68	77	247	2,054	2,446
Total financial liabilities	9,317	3,155	1,722	632	2,244	4,102	11,855

26 Financial risk management (continued)

26.3 Liquidity risk (continued)

Council (continued)							
2013							Total
\$million	Carrying amount	On demand	< 1 year	1-2 years	2-5 years	> 5 years	contractual cash flows
Financial assets							
Cash and cash equivalents	297	297	-	-	-	-	297
Receivables (excluding prepayments)	182	-	114	68	-	-	182
Other financial assets	1,289	309	143	409	273	517	1,651
Derivative financial assets net settled							
Interest rate sw aps	71	-	3	3	32	57	95
Derivative financial assets gross settled							
Forw ard foreign exchange contracts	19						
Inflow s		-	128	200	15	-	343
Outflow s		-	(119)	(181)	(13)	-	(313)
Cross-currency interest rate sw aps	11						
Inflow s		-	3	3	9	174	189
Outflow s		-	(5)	(7)	(25)	(203)	(240)
Total financial assets	1,869	606	267	495	291	545	2,204
Financial liabilities							
Non-derivative financial liabilities							
Payables and accruals (excluding income received in advance)	410	-	364	46	-	-	410
Secured borrow ings	4,700	-	1,136	903	1,609	2,256	5,904
Finance lease liabilities	2	-	2	-	-	-	2
Financial guarantees	14	-	2,528	-	-	-	2,528
Derivative financial liabilities net settled							
Interest rate sw aps	96	-	36	27	40	4	107
Derivative financial liabilities gross settled							
Forw ard foreign exchange contracts	22						
Inflow s		-	(119)	(181)	(13)	-	(313)
Outflow s		-	128	200	15	-	343
Cross-currency interest rate sw aps	25						
Inflow s		-	(14)	(14)	(43)	(416)	(487)
Outflow s		-	16	18	64	477	575
Redeemable preference shares							
Total financial liabilities	5,269	-	4,077	999	1,672	2,321	9,069

26 Financial risk management (continued)

26.4 Fair value estimation

The estimated carrying amount and fair value of the Group's financial assets and liabilities are as follows:

Group							
\$million	Financial instrument category	Level		Carrying amount		Fair value	
		2014	2013	2014	2013	2014	2013
Assets							
Cash and cash equivalents	Loans and receivables			206	336	206	336
Receivables (excluding prepayments)	Loans and receivables			321	335	321	335
Derivatives	Derivative for hedging	2	2	1	18	1	18
Derivatives	Fair value through surplus or deficit	2	2	93	61	93	61
Other financial assets							
Unit trusts	Fair value through surplus or deficit	1	1	291	274	291	274
Listed shares	Fair value through surplus or deficit	1	1	20	30	20	30
Listed shares	Available for sale	1	1	25	23	25	23
Unlisted shares	Available for sale	3	3	5	5	5	5
Loans to related parties	Loans and receivables			5	21	5	21
Other	Loans and receivables			123	64	124	67
Total assets				1,090	1,167	1,091	1,170
Liabilities							
Bank overdraft	Measured at amortised cost			4	3	4	3
Borrowings	Measured at amortised cost			6,341	5,881	6,513	6,176
Payables and accruals (excluding income received in advance)	Measured at amortised cost			579	510	579	510
Derivatives	Derivative for hedging	2	2	45	53	45	53
Derivatives	Fair value through surplus or deficit	2	2	232	175	232	175
Total liabilities				7,201	6,622	7,373	6,917
Council							
\$million	Financial instrument category	Level		Carrying amount		Fair value	
		2014	2013	2014	2013	2014	2013
Assets							
Cash and cash equivalents	Loans and receivables			157	297	157	297
Receivables (excluding prepayments)	Loans and receivables			190	182	190	182
Derivatives	Derivative for hedging	2	2	-	17	-	17
Derivatives	Fair value through surplus or deficit	2	2	137	84	137	84
Other financial assets							
Unit trusts	Fair value through surplus or deficit	1	1	291	274	291	274
Listed shares	Fair value through surplus or deficit	1	1	20	30	20	30
Unlisted shares	Available for sale	3	3	5	5	5	5
Loans to related parties	Loans and receivables			1,414	933	1,488	998
Other	Loans and receivables			108	47	109	48
Total assets				2,322	1,869	2,397	1,935
Liabilities							
Borrowings	Measured at amortised cost			5,439	4,702	5,600	4,970
Payables and accruals (excluding income received in advance)	Measured at amortised cost			510	410	510	411
Derivatives	Derivative for hedging	2	2	-	28	-	28
Derivatives	Fair value through surplus or deficit	2	2	213	115	213	115
Total liabilities				6,162	5,255	6,323	5,524

26 Financial risk management (continued)

26.4 Fair value estimation (continued)

Financial instruments measured in the statement of financial position at fair value have been categorised by the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that is not based on observable market data (that is, unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at balance date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the bid price at reporting date. These instruments are included in level 1.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance date, with the resulting value discounted back to present value
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Unlisted shares are disclosed under level 3 as there is no market information on the value of the company's shares. The value stated is based on the council's share of net assets of the company, which is being determined to equate to fair value of the council's investments.

There were no transfers between the different levels of the fair value hierarchy during the year (2013: \$nil).

The valuation technique for the fair value of financial instruments which are carried at amortised cost in the statement of financial position have been calculated using discounted cash flow technique and market prices.

27 Ratepayer equity

\$million	Group		Council	
	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Ratepayer equity				
Contributed equity	26,734	26,734	26,569	26,569
Accumulated funds	586	(47)	228	(419)
Reserves	3,825	2,141	906	316
Total ratepayer equity	31,145	28,828	27,703	26,466
Reserves include				
Asset revaluation reserve	3,539	2,028	863	297
Restricted equity and targeted rates	45	35	43	34
Share of associates' reserves	265	97	-	-
Available-for-sale investment revaluation reserve	11	9	-	-
Cash flow hedge reserve	(35)	(28)	-	(15)
Total reserves	3,825	2,141	906	316

Ratepayer equity is the Auckland community's interest in the Group. 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.

Movements of reserves are presented as follows:

\$million	Group		Council	
	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Asset revaluation reserve				
Opening balance	2,028	1,851	297	296
Transferred from/(to) accumulated funds	33	9	-	-
Change in fair value recognised during the year	1,478	168	566	1
Closing balance	3,539	2,028	863	297
Restricted equity and targeted rates				
Opening balance	35	300	34	300
Transfer in/(out) during the year	10	(265)	9	(266)
Closing balance	45	35	43	34
Share of associates' reserves				
Opening balance	97	100	-	-
Decrease in investment	-	(3)	-	-
Change in fair value recognised during the year	168	-	-	-
Closing balance	265	97	-	-
Available for sale investment revaluation reserve				
Opening balance	9	6	-	3
Recycled through surplus or deficit	-	(4)	-	(3)
Change in fair value recognised during the year	2	7	-	-
Closing balance	11	9	-	-
Cashflow hedge reserve				
Opening balance	(28)	(48)	(15)	(30)
Recycled through surplus or deficit	86	7	81	5
Change in fair value recognised during the year	(93)	13	(66)	10
Closing balance	(35)	(28)	-	(15)

27 Ratepayer equity (continued)

Cash flow hedge reserves comprise the effective portion of the cumulative net change in the fair value of derivatives designated as cash flow hedges.

Restricted equity includes targeted rates and reserves, where use of the funds is specified by statute, trust deed or contract.

Capital management

The council's capital is its ratepayer equity, which comprises contributed equity, reserves and accumulated funds. Equity is represented by net assets.

The LGA 2002 requires the council to manage its income, 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.

The objective of managing these items is to achieve intergenerational equity, which is a principle promoted in the LGA 2002 and applied by the council. Intergenerational equity requires today's ratepayers to meet the cost of using the council's assets and not expecting them to meet the full cost of long-term assets that will benefit ratepayers in future generations.

The council also has 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.

The LGA 2002 requires the council to make adequate and effective provision in its LTP and in its annual plan to meet the expenditure needs identified. The LGA 2002 sets out factors that the council is required to consider when determining the most appropriate sources of funding for each of its activities. The sources and levels of funding are set out in the funding and financial policies of the LTP.

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

	Group		Council	
\$million	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Surplus/(deficit) after income tax	676	257	656	(304)
Add/(less) non cash items				
Depreciation and amortisation	737	681	202	197
Reversal of previously recognised impairment	(2)	(25)	(2)	-
Net increase/(decrease) in fair value of investment property	(10)	(29)	(7)	(13)
Net unrealised increase/(decrease) in financial assets held at fair value through surplus/(deficit)	(94)	(157)	(73)	(96)
Time value adjustments	18	19	18	19
Net (gain)/loss on revaluation of property, plant and equipment and intangible assets	(412)	424	(412)	401
Impairment of property, plant and equipment, receivables and other assets	26	8	(1)	6
Vested assets	(161)	(480)	(45)	(30)
Share of surplus/(deficit) in associates and jointly-controlled entities (net of dividends received)	71	(41)	(2)	1
Less items classified as investing or financing activities	(32)	(40)	(28)	(47)
Add/(less) movements in deferrals and accruals	6	(45)	(77)	9
Net cash inflow from operating activities	823	572	229	143

29 Commitments

	Group		Council	
\$million	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Capital commitments				
Property, plant and equipment	1,020	862	145	82
Intangible assets	28	11	17	9
Total capital commitments	1,048	873	162	91

29 Commitments (continued)

Operating leases as lessee

The Group leases property, plant and equipment from third parties in the normal course of business with lease terms varying from 1 month to 87 years (2013: 1 month to 88 years).

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

\$million	Group	Actual 2013	Council	Actual 2013
	Actual 2014		Actual 2014	
Minimum operating lease payments payable				
Not later than one year	21	21	10	13
Later than one year and not later than five years	61	55	28	29
Later than five years	52	59	12	18
Total minimum operating lease payments payable	134	135	50	60

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

Contingent rents of \$2 million have been recognised during the year (2013: \$2 million).

Operating leases as lessor

The Group leases 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 75 years (2013: 1 month to 76 years) with subsequent renewals negotiated with the lessee.

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

\$million	Group	Actual 2013	Council	Actual 2013
	Actual 2014		Actual 2014	
Minimum operating lease payments receivable				
Not later than one year	37	29	15	15
Later than one year and not later than five years	87	70	35	34
Later than five years	251	215	196	200
Total minimum operating lease payments receivable	375	314	246	249

No contingent rents have been recognised during the year (2013: \$nil).

30 Contingencies

30.1 Contingent liabilities

Contingent liabilities include those items where a liability may be incurred if certain events or outcomes occur, or where a present obligation exists but the liability cannot be measured reliably for recognition in the financial statements.

Management considers the likelihood of a particular event or outcome occurring to determine whether a contingent liability should be disclosed. No disclosure is made when the possibility of an outflow of resources is considered to be remote. Where amounts are disclosed the amount shown is the maximum potential cost.

30.1.1 Quantifiable contingent liabilities

\$million	Group		Council	
	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Guarantees and indemnities	2,564	1,667	3,155	2,513
Uncalled capital	2	2	2	2
Legal proceedings and disputes	85	47	85	46
Redeemable preference shares	-	-	125	125
Total quantifiable contingent liabilities	2,651	1,716	3,367	2,686

Guarantees and indemnities

New Zealand Local Government Funding Agency

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+.

The council is one of 40 local authority guarantors of the LGFA. The LGFA's debt is \$3.7 billion (2013: \$2.5 billion), of which the council has borrowed \$1.2 billion (2013: \$860 million). As a result, the council's cross-guarantee on LGFA's other borrowings is \$2.5 billion (2013: \$1.6 billion).

NZ IFRS requires the council to recognise the guarantee liability at fair value. However, the council has been unable to determine a sufficiently reliable fair value for the guarantee, and therefore has not recognised a liability. The council considers 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
- local government legislation would enable local authorities to levy rate reserve to recover sufficient funds to meet any debt obligations if further funds were required.

Eden Park Trust Board

A guarantee has been provided to lenders of the Eden Park Trust Board to a maximum of \$40 million (2013: \$40 million). The guarantee was provided to assist with the timely upgrade of the Eden Park Stadium. Certain covenants are in place. At balance date the trust's board had complied with all covenants under the terms of the underlying loan.

30 Contingencies (continued)

30.1 Contingent liabilities (continued)

30.1.1 Quantifiable contingent liabilities (continued)

Watercare Services Ltd

The council has provided a guarantee for certain Watercare borrowings. At 30 June 2014, the borrowings for which this guarantee is provided totalled \$595 million (2013: \$850 million).

The council's exposure under the guarantee is reducing as Watercare fund more debt directly from the council.

Other

The council has provided guarantees to various community organisations for borrowings totalling \$1 million (2013: \$1 million).

During the year there has been no default by any of the principals.

Uncalled capital

The council is one of 30 local authority shareholders of the LGFA. In that regard it has uncalled capital of \$2 million (2013: \$2 million). When aggregated with the uncalled capital of other shareholders, \$20 million is available in the event that an imminent default is identified.

Legal proceedings and disputes

Legal claims against the Group 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 not remote the council has 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. Amounts shown do not include any interest or costs that may be claimed if these cases were decided against the Group.

Redeemable preference shares

Redeemable preference shares are issued by Airport Shares (Manukau) Ltd, a subsidiary of the ACIL group. The holder has a right of renewal on 21 September 2015 and the council is obliged to purchase the redeemable preference shares if the arrangement is not renewed. Dividends on redeemable preference shares are recognised as a finance expense.

The holder also has a put option requiring the council to purchase the shares under certain conditions. The likelihood of this option being exercised is considered remote consequently no liability has been recognised.

30.1.2 Unquantifiable contingent liabilities

Riskpool

The council is a participant in Riskpool, a mutual fund that provides civil liability insurance to local government entities. Certain funds in which the council is a participant have exhausted their reinsurance cover, leaving the funds in deficit. The council through its participation may be liable for any calls made by Riskpool to fund these deficits. At 30 June 2014, no further calls are required.

30 Contingencies (continued)

30.1 Contingent liabilities (continued)

30.1.2 Unquantifiable contingent liabilities (continued)

Suspensory loans

The council enters into loan agreements with the Housing New Zealand Corporation for the purpose upgrading older adult units owned by the council. The loans are unsecured, interest free and the principal will be forgiven on maturity, provided certain conditions are met by the council each year.

The council has complied with all loan conditions and as a result all proceeds were recognised as grant income in surplus/(deficit) in the year ended 30 June 2011.

Contaminated land

The council has responsibility under various laws to remedy adverse effects on the environment arising from its activities. The council has implemented systems to identify, monitor and assess potential contaminated sites and where contamination is confirmed has obtained resource consents and recognised a provision. It is likely that further sites will be identified over time and should testing confirm contamination, the council will be obliged to undertake remedial action. A significant degree of estimation has been involved to calculate the provision; as a result the Group may be subject to further liability that is not currently recognised.

Weathertightness

Refer to note 24.1 for information about weathertightness claims. A significant degree of estimation has been involved to calculate the provision; as a result the Group may be subject to further liability that is not currently recognised.

Legal proceedings and disputes

Auckland Transport has been advised of a potential claim by Snapper Services Ltd 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.

The Wynyard Quarter investment property includes land that has been contaminated and requires remediation. Auckland Waterfront Development Agency (Waterfront Auckland) took court action against a previous tenant to enforce their remediation obligations under their lease. In February 2014, the court found in favour of the tenant that they were not obligated to remediate the land to the standard expected by Waterfront Auckland.

Waterfront Auckland is currently appealing against the decision and the outcome of the appeal is still to be determined.

30 Contingencies (continued)

30.2 Contingent assets

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 art works on the contribution date specified in the agreement. At this point, the Group is 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.

Repurchase of heritage buildings

In June 2004, one of the legacy councils sold a number of heritage buildings that form part of the Britomart precinct. These buildings are listed in schedule 1 of the development deed for the Britomart precinct. The council has a right to repurchase these buildings for \$1 after 150 years (June 2154).

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.

31 Related parties

Related parties

Related parties are defined in the Group's accounting policies. Certain related parties have directorships and trustee positions in a number of entities with which the Group transacts in the normal course of business, on standard terms. No disclosure is made for these relationships as the related parties do not have a controlling interest in the council or the entity where they are a director or trustee.

There are no bad or doubtful debts associated with any related parties of the Group or council (2013: \$nil)

31 Related parties (continued)

31.1 Council's transactions with subsidiaries

Transactions between the council and its subsidiaries are as follows:

\$million	Council	
	Actual 2014	Actual 2013
Revenue		
Operating revenue	34	51
Interest received	57	53
Dividends received	156	45
Other	23	-
Expenses		
Operational funding provided	317	313
Capital funding provided	145	135
Other	25	58
Advances made to subsidiaries		
Loan advances made	578	303
Property, plant and equipment transferred	20	174
Total	598	477
Repayments from subsidiaries		
Advances repaid	80	99
Advances converted to equity	-	175
Total	80	274
Amounts outstanding at year end		
Receivables	22	22
Payables	203	193
Loans to subsidiaries	1,414	916
Loans from subsidiaries	4	-

The council has entered into derivative contracts with a notional value of \$252 million (2013: \$475 million) for interest rate swaps and \$238 million (2013: \$343 million) for forward exchange contracts with subsidiaries. The terms of these contracts match the external contracts. The fair value at 30 June 2014 is \$47 million (2013: \$32 million).

Receivables, advances and payables between the council and subsidiaries are disclosed in notes 12, 13 and 20.

31.2 Group's transactions with jointly-controlled entities

Transactions between the Group and its jointly-controlled entities are as follows:

\$million	Group	
	Actual 2014	Actual 2013
Dividends received	2	1
Advances repaid	17	-
Receivables outstanding at year end	5	21

31 Related parties (continued)

31.3 Group's transactions with associates

Transactions between the Group and its associates are as follows:

	Group	
\$million	Actual 2014	Actual 2013
Dividends received	20	35
Capital returned	102	-

31.4 Transactions with key management personnel or entities controlled by them

Related parties	Relationship to the Group	Related entity	Type of transactions
Penny Webster	Councillor	All Rural Fencing Ltd	Supplier of services

There were no new transactions between the Group (2013: \$32,189) or the council (2013: \$4,313) and All Rural Fencing Ltd during the year. At 30 June 2014 there was no outstanding balance payable by the Group (2013: \$4,313) or the council (2013: \$4,313).

32 Remuneration

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

Remuneration for key management personnel is summarised as follows:

	Council	
\$	Actual 2014	Actual 2013
Key management personnel remuneration		
Mayor and councillor remuneration	2,348,670	2,222,517
Douglas McKay*	586,006	782,887
Stephen Town**	273,808	-
Executive leadership team	3,539,451	3,580,659
Local board	6,285,521	6,167,387
Total key management personnel remuneration	13,033,456	12,753,450

*Douglas McKay resigned as chief executive on 31 December 2013

**Stephen Town was appointed as chief executive 15 January 2014

The chief executive is appointed under section 42 of the LGA 2002. The chief executive and the executive leadership team received the following remuneration:

	Council	
\$	Actual 2014	Actual 2013
Payments during the year to the chief executives		
Salary and other short-term employee benefits	834,775	765,820
Post employment benefits (Kiwisaver contributions)	25,039	17,067
Total chief executives remuneration	859,814	782,887
Executive leadership team		
Salary and other short term employee benefits	3,476,746	3,528,652
Post-employment benefits (Kiwisaver contributions)	62,705	52,007
Total executive leadership team remuneration	3,539,451	3,580,659

Further disclosures on the remuneration of elected representatives can be found in Section 2.

33 Events after the reporting period

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

Section 2: Local government act disclosures

Depreciation and amortisation by group of activities

Under the Local Government (Financial Reporting) Regulations 2014 section 5(4), the Group is required to disclose depreciation and amortisation by group of activities which is shown in the table below:

Group	Total depreciation and amortisation	
	2014	2013
\$million		
Group of activities		
Commercial	2	2
Investment	24	20
Regional economic strategy and initiatives	1	-
Local economic development	3	3
Tourism, major events and industry development	-	1
Waterfront development	9	9
Environment and heritage protection	1	-
Regulation	1	1
Waste and recycling services	2	2
Stormwater management	46	51
Water supply	88	79
Sewerage treatment and disposal	117	105
Public transport and travel demand management	58	45
Roads and footpaths	210	198
Parking and enforcement	8	8
Emergency management	1	1
Regional library services	18	15
Regional community services	1	1
Local community services	1	-
Regional arts, culture and events services	1	1
Local arts, culture and events services	1	-
Regional event facilities	15	12
Local parks services	47	5
Regional parks services	5	39
Regional recreation services	3	6
Local recreation services	4	4
Regional collections and amenities	5	5
Organisational support	65	68
Total depreciation and amortisation	737	681

Core assets

Under the Local Government (Financial Reporting) Regulations 2014 section 6, the Group is required to disclose information about core assets which is shown in the table below:

Group		Core assets					
\$million	Water supply treatment plants and facilities	Water supply other assets	Sewerage treatment plants and facilities	Sewerage other assets	Stormwater drainage	Flood protection and control works	Roads and footpaths
2014							
Assets constructed	30	95	69	66	31	-	374
Assets transferred	-	5	-	16	35	-	39
Closing book value	869	2,166	992	3,440	3,509	35	7,718
Estimated replacement cost	1,310	3,736	1,245	5,788	4,700	47	11,801
2013							
Assets constructed	61	49	23	18	41	-	253
Assets transferred	-	5	-	10	23	-	158
Closing book value	864	2,186	900	3,406	3,498	35	6,913

Council		Core assets	
\$million	Stormwater drainage	Flood protection and control works	
2014			
Assets constructed	31	-	
Assets transferred	35	-	
Closing book value	3,509	35	
Estimated replacement cost	4,700	47	
2013			
Assets constructed	41	-	
Assets transferred	23	-	
Closing book value	3,498	35	

Reserve funds

Under the Local Government Act 2002 (LGA 2002), the Group must identify each reserve fund set aside for a specific purpose. The reserves funds held by the Group during the year are as follows:

\$million	Opening balance 1 Jul 13	Transfers to reserves	Transfers from reserves	Closing balance 30 Jun 14	Description/use
Trusts and bequests					
Leys Institute Trust Capital	1	-	-	1	Original bequest from the Leys family for equipping and operating the Leys Institute.
Trusts for art activities	1	-	-	1	Bequests from Margaret Serra and Nicholas Canaday to fund purchase of works of art for the Auckland Art Gallery.
Other trusts	-	-	-	-	Other trusts include Winstone Park Trust, for improvement, development or upkeep of the Winstone Park and other small trusts and bequests.
Total trusts and bequests	2	-	-	2	
Reserves and targeted rates					
Greenmount Golf Reserve	3	-	-	3	Gifted by Sarah Lushington to convert the land into a public park and recreation ground.
Manukau Harbour Related Recreational Facilities	4	-	-	4	Used to fund the improvement of coastal recreation opportunities by enhancing access and amenity value.
North Shore Holdings Reserve Fund	7	-	(1)	6	To hold unspent special funds for projects already approved by Auckland Transition Agency and the legacy North Shore City Council.
Fairhaven Walk Targeted Rate	(1)	-	-	(1)	Loan by the council to the local community to assist with construction of local road access.
Community Recreation and Sport Fund	1	-	-	1	Grants received from former Hillary Commission for a sport and recreational group.
Harbourview -Orangihina UAC Reserve	1	-	-	1	Targeted rate collected to build the Harbourview -Orangihina Park.
Hobsonville Domain Compensation Reserve	2	-	-	2	Advance from NZTA as part of the Hobsonville Domain Replacement project.
Waste Management Targeted Rate	4	-	-	4	To fund refuse collection, disposal services, refuse recycling and waste transfer stations.
Parkland Purchase Targeted Rate	-	-	-	-	Target rates collected to fund park land purchase.
Off-Street Parking Funds	9	-	-	9	Parking provision collected from a developer as contribution toward any off-street parking initiatives.
Central City Targeted Rate	-	10	-	10	To fund the development and revitalisation of the city centre.
Targeted Rates Open Spaces/Volcanic Cones	-	3	-	3	Legacy targeted rates. No longer levied.
Total reserves and targeted rates	30	13	(1)	42	
Total restricted funds	32	13	(1)	44	

Rating base information

Under the LGA 2002, the Group is required to disclose the following rating base information:

Group	Actual 2013
Number of rating units	523,938
Total capital value of rating units (in \$million)	364,202
Total land value of rating units (in \$million)	201,425

Insurance of assets

Under the LGA 2002, the Group is required to disclose the following insurance information:

\$million	Book value	Insured value	Commentary
Roads	7,721	-	Uninsured. 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 disaster, could be subsidised by the New Zealand Transport Agency.
Water and wastewater and machinery	7,463	2,976	Above ground infrastructure such as water and wastewater pump stations are insured to a value of \$3 billion with a maximum coverage of \$200 million per event. Below ground infrastructure is not insured, and there is no provision made for the self-insured portion.
Stormwater	3,550	1	Above ground infrastructure such as pump stations are insured. For below ground infrastructure, central government funds 60% of the cost of replacing stormwater networks damaged in a natural disaster. No provision is made for the self-insured portion (40%) of the replacement cost.
Buildings, wharves, and other above ground structures	6,073	7,124	For any natural disaster the Group self insures up to \$10 million with a maximum coverage of \$1 billion per event.
Rolling stock	143	50	Insurance is based on diesel network, however the insured value is being extended as ownership of electric trains transfers to the Group.
Land	11,956	-	Uninsured. Includes land under roads, parks and reserves and operational land.
Total	36,906	10,151	

As at 30 June 2014 the Group does not have sufficient information to determine the replacement value of its self-insured assets.

Remuneration

	Council	
\$	Actual 2014	Actual 2013
Mayor		
Len Brown	249,868	247,229
Councillors		
Alf Filipaina	96,019	90,025
Ann Hartley	33,279	99,372
Arthur Anae	96,019	90,025
Bill Cashmore	66,034	-
Calum Penrose	96,019	90,025
Cameron Brewster	96,019	90,025
Cathy Casey	96,019	90,025
Chris Darby	66,034	-
Christine Fletcher*	148,986	143,058
Denise Krum	66,034	-
Des Morrison	29,985	90,025
Dick Quax	96,019	90,025
George Wood	107,708	90,025
John Walker	96,019	90,025
John Watson	66,034	-
Linda Cooper	66,034	-
Michael Goudie	29,985	90,025
Mike Lee*	148,986	143,058
Noelene Raffills	29,985	96,566
Penny Hulse	135,244	124,165
Penny Webster	111,002	99,372
Richard Northey	33,279	99,372
Ross Clow	66,034	-
Sandra Coney	29,985	90,025
Sharon Stewart	96,019	90,025
Wayne Walker	96,019	90,025
Total mayor and councillor remuneration	2,348,670	2,222,517

*Christine Fletcher and Mike Lee were paid \$96,019 each by the council as elected members (2013: \$90,025 each) and \$52,967 each by Auckland Transport as directors (2013: \$53,033 each).

Elections for the mayor, elected members and local board members were held on 12 October 2013. As a result of this, some figures reflect a partial year of remuneration for certain elected members.

Remuneration (continued)

	Council	
\$	Actual 2014	Actual 2013
Local boards		
Albert-Eden		
Glenda Fryer	27,848	-
Graeme Easte	38,914	37,587
Helga Arlington	38,914	37,587
Lee Corrick	38,914	37,587
Margi Watson	43,960	53,985
Pauline Anderson	12,481	37,587
Peter Haynes	76,711	73,067
Rachel Langton	26,433	-
Simon Mitchell	578	37,587
Tim Woolfield	38,914	37,587
Total	343,667	352,574
Devonport-Takapuna		
Allison Roe, MBE	25,662	-
Chris Darby	20,192	60,274
Dianne Hale, QSO, JP	37,654	36,088
Grant Gillon	25,662	-
Jan O' Connor	37,654	36,088
Joseph Bergin	37,654	36,088
Kevin Schw ass	15,777	48,387
Mike Cohen, QSM, JP	58,128	36,088
Total	258,383	253,013
Franklin		
Alan Cole	25,045	-
Andrew Baker	76,251	60,672
Angela Fulljames	25,045	-
Bill Cashmore	17,294	39,442
Brendon Crompton	25,045	-
Daniel Lynch	11,602	34,888
Jan Sinclair	11,602	48,476
Jill Naysmith	36,647	34,888
Lance Gedge	11,602	34,888
Lyn Murphy	25,045	-
Magan Ranchhod	11,602	34,888
Malcolm Bell	25,045	-
Murray Kay	37,816	35,368
Paul Muir	11,602	34,888
Sarah Higgins	25,045	-
Total	376,288	358,398
Great Barrier		
Christina Spence	14,531	-
Izzy Fordham	39,544	23,714
Jeffery Cleave	14,531	-
Judith Gilbert	14,531	-
Paul Dow nie	13,413	40,190
Richard Somerville Ryan	6,901	20,794
Scott Mabey	-	20,390
Susan Daly	21,432	20,794
Total	124,883	125,882

Remuneration (continued)

	Council	
\$	Actual 2014	Actual 2013
Henderson-Massey		
Assid Khaleel Corban	17,787	54,784
Brenda Brady, JP	41,868	38,385
Chris Cooper	2,468	-
Leo Frank Nobilo	12,741	38,385
Luke Wilson	26,845	-
Peter Chan, JP	39,586	38,385
Ross Dallow	12,741	38,385
Shane Henderson	26,845	-
Tracy Kirkley	39,540	38,385
Vanessa Neeson, JP	80,120	77,451
Warren Faunty, QSM	39,586	38,385
William Flavell	26,845	-
Total	366,972	362,545
Hibiscus and Bays		
David Cooper	43,456	53,385
Gary Holmes	39,417	36,987
Gaye Harding-Kirikiri	38,410	36,987
Greg Sayers	38,410	36,987
Janet Fitzgerald	26,125	-
John Kirikiri	12,285	36,987
John Watson	12,285	36,987
Julia Parfitt, JP	73,876	69,766
Lisa Whyte	38,410	36,987
Lovisa Rasmussen	26,125	-
Total	348,799	345,073
Howick		
Adele White	45,469	56,985
David Collings	70,590	38,683
Gary Boles	26,999	-
Jim Donald	39,838	38,683
John Spiller	39,838	38,683
Katrina Bungard	26,999	-
Lucy Schw aner	39,838	38,683
Michael Williams	27,482	82,647
Robert Wichman	26,999	-
Shirley Warren	12,839	38,683
Steve Udy	39,838	38,683
Wayne Huang	12,839	38,683
Total	409,568	410,413
Kaipātiki		
Ann Hartley	26,022	-
Chris Marshall	12,220	36,787
Danielle Grant	26,022	-
Grant Gillon	38,242	36,787
John Gillon	38,242	36,787
Kay McIntyre	63,020	36,787
Lindsay Waugh	48,948	68,668
Lorene Pigg	26,022	-
Nick Kearney	17,267	53,185
Richard Hills	38,242	36,787
Vivienne Keohane	12,220	36,787
Total	346,467	342,575

Remuneration (continued)

\$	Council	
	Actual 2014	Actual 2013
Māngere-Ōtāhuhu		
Carrol Elliot, JP	38,326	36,885
Christine O' Brien	42,695	51,086
Leau Peter Skelton	48,251	66,363
Lydia Sosene	61,637	36,885
Nick Bakulich	26,073	-
Sylvia Taylor	12,253	36,885
Tafafunai Tasi Lauese, JP	38,326	36,885
Walter Togiamua	38,326	36,885
Total	305,887	301,874
Manurewa		
Angela Cunningham-Marino	38,326	36,885
Angela Dalton	74,301	67,329
Colleen Brown	12,253	36,885
Danella McCormick	26,073	-
Daniel Newman	-	29,842
Daryl Wrightson	26,073	-
Hon. George Hawkins, QSO	38,326	36,885
Ken Penney	38,326	36,885
Michael Bailey	43,341	42,652
Simeon Brown	38,326	7,380
Toa Greening	12,253	36,885
Total	347,598	331,628
Maungakiekie-Tāmaki		
Alan Verrall	38,074	36,587
Brett Clark	38,074	36,587
Bridget Graham, QSM	42,474	51,710
Chris Makoare	38,074	36,587
Josephine Bartley	38,074	36,587
Leila Boyle	12,155	48,377
Obed-Edom Unasa	25,919	-
Simon Randall	70,242	52,924
Total	303,086	299,359
Ōrākei		
Colin Davis, JP	38,578	37,187
Desley Simpson	73,034	68,164
Kate Cooke	38,578	37,187
Ken Baguley	41,969	37,421
Kit Parkinson	38,578	37,461
Mark Thomas	42,978	51,212
Troy Churton	39,356	37,187
Total	313,071	305,819
Ōtara-Papatoetoe		
Donna Lee	38,578	37,185
Fa'anānā Efeso Collins	49,786	-
Harold Robertson	26,228	-
Ian McGeachie	12,351	37,185
John McCracken	48,861	67,765
Lotu Titi Fuli	26,228	-
Mary Gush	38,578	37,185
Poutoa Papali'i	12,351	37,185
Stephen Grey	42,948	51,386
Tunumafono Ava Fa'amoe	12,351	37,185
Total	308,260	305,076

Remuneration (continued)

	Council	
\$	Actual 2014	Actual 2013
Papakura		
Brent Catchpole	40,568	47,720
Caroline Conroy	11,667	35,086
Graham Purdy	36,814	35,086
Hine Joyce Tahere	18,760	55,872
John Robinson	11,667	35,086
Katrina Winn	25,147	-
Michael Turner	36,814	35,086
Stuart Britnell	25,147	-
William McEntee	43,867	-
Total	250,451	243,936
Puketāpapa		
David Holm	25,610	-
Ella Kumar, JP	37,570	35,988
Harry Doig	25,610	-
Julie Fairey	58,448	35,988
Michael Wood	37,570	35,988
Nigel Turnbull	41,355	48,287
Peter Muys	11,960	35,988
Richard Barter	20,095	59,972
Total	258,218	252,211
Rodney		
Beth Houlbrooke	24,735	-
Bob Howard	19,249	57,371
Brenda Steele	56,331	34,288
Greg Sayers	24,735	-
James Colville	36,142	7,256
James Rolfe	-	19,776
John McLean	36,143	34,288
June Turner	11,407	34,288
Phelan Pirrie	24,735	-
Steven Garner	41,834	52,785
Thomas Grace	36,143	34,288
Tracey Martin	11,407	34,288
Warren Flaunty, QSM	36,143	34,288
Total	359,004	342,916
Upper Harbour		
Brian Neeson	62,198	47,687
Callum Blair	37,633	35,486
Christine Rankin-McIntyre	37,150	35,486
John McLean	25,353	-
Lisa Whyte	37,150	37,411
Margaret Miles, JP	51,309	57,569
Warren Flaunty	11,797	35,486
Total	262,590	249,125

Remuneration (continued)

	Council	
\$	Actual 2014	Actual 2013
Waiheke		
Beatrice Treadwell	15,311	-
Don McKenzie	7,143	21,494
Faye Storer	14,143	41,889
Jim Hannan	7,143	21,494
Jo Holmes	10,343	31,891
Johannes Meeuw sen	15,311	-
Paul Walden	42,326	23,698
Rebecca Ballard	15,311	-
Shirin Brown	15,311	-
Total	142,342	140,466
Waitākere Ranges		
Denise Yates, JP	44,518	57,275
Greg Presland	37,066	35,388
Janet Clew s	15,549	47,687
Judy Law ley	11,765	35,388
Mark Brickell	11,765	35,388
Neil Henderson	37,066	35,388
Saffron Toms	25,302	-
Sandra Coney, QSO	45,142	-
Steve Tollestrup	25,302	-
Total	253,475	246,514
Waitematā		
Christopher Dempsey	37,822	36,288
Deborah Yates	25,765	-
Greg Moyle	37,822	36,288
Jesse Chalmers	12,058	36,288
Pippa Coom	42,253	50,686
Rob Thomas	37,822	36,288
Shale Chambers	69,512	63,874
Tricia Reade	12,058	36,288
Vernon Tava	25,765	-
Total	300,877	296,000
Whau		
Ami Chand	26,073	-
Catherine Farmer	61,354	36,887
Derek Battersby, QSM, JP	48,251	66,369
Duncan Macdonald, JP	42,726	51,186
Jack Weir	12,253	36,887
Kathryn Davie	12,253	36,887
Lily Ho	12,253	36,887
Ruby Manukia-Schaumkel	26,073	-
Sandy Taylor	12,253	36,887
Simon Matafai	26,073	-
Xudong Zhu	26,073	-
Total	305,635	301,990
Total local board remuneration	6,285,521	6,167,387

Remuneration (continued)

Employees and remuneration

At 30 June 2014 the number of full time equivalent employees of the Group was 9,394 (2013: 9,206) and the council 5,990 (2013: 5,956).

	Group		Council	
	Actual 2014	Actual 2013	Actual 2014	Actual 2013
Full time equivalent				
Full time employees	8,444	8,065	5,284	5,156
Part time employees (full time equivalent)	950	1,141	706	800
Total full time equivalent	9,394	9,206	5,990	5,956

The comparative figures have been restated to reflect the availability of more accurate information.

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

The disclosure for the Group includes the council and significant subsidiaries listed in note 18.1, Section 1.

Group Number of employees	Actual 2014
<\$60,000	5,139
\$60,000-\$79,999	2,481
\$80,000-\$99,999	1,733
\$100,000-\$119,999	870
\$120,000-\$139,999	408
\$140,000-\$159,999	203
\$160,000-\$179,999	93
\$180,000-\$199,999	65
\$200,000-\$219,999	44
\$220,000-\$239,999	27
\$240,000-\$259,999	18
\$260,000-\$299,999	17
\$300,000-\$319,999	9
\$320,000-\$359,999	7
\$360,000-\$399,999	8
\$400,000-\$479,999	6
\$480,000-\$859,999	5
Total number of employees	11,133

Remuneration (continued)

Employees and remuneration (continued)

Group	Actual
Number of employees	2013
<\$60,000	5,485
\$60,000-\$79,999	2,248
\$80,000-\$99,999	1,524
\$100,000-\$119,999	722
\$120,000-\$139,999	357
\$140,000-\$159,999	185
\$160,000-\$179,999	80
\$180,000-\$199,999	43
\$200,000-\$219,999	37
\$220,000-\$239,999	17
\$240,000-\$259,999	16
\$260,000-\$299,999	20
\$300,000-\$339,999	6
\$340,000-\$379,999	7
\$380,000-\$499,999	6
\$500,000-\$799,999	4
Total number of employees	10,757

Council	Actual
Number of employees	2014
<\$60,000	3,265
\$60,000-\$79,999	1,657
\$80,000-\$99,999	1,140
\$100,000-\$119,999	537
\$120,000-\$139,999	231
\$140,000-\$159,999	97
\$160,000-\$179,999	53
\$180,000-\$199,999	30
\$200,000-\$219,999	16
\$220,000-\$239,999	12
\$240,000-\$279,999	7
\$280,000-\$299,999	6
\$300,000-\$339,999	6
\$340,000-\$639,999	5
Total number of employees	7,062

Council	Actual
Number of employees	2013
<\$60,000	3,629
\$60,000-\$79,999	1,556
\$80,000-\$99,999	1,012
\$100,000-\$119,999	413
\$120,000-\$139,999	199
\$140,000-\$159,999	91
\$160,000-\$179,999	47
\$180,000-\$199,999	18
\$200,000-\$219,999	14
\$220,000-\$239,999	6
\$240,000-\$279,999	12
\$280,000-\$319,999	7
\$320,000-\$799,999	4
Total number of employees	7,008

Severance payments

For the year ended 30 June 2014, the council made 39 severance payments to employees totalling \$522,743 (year ended 30 June 2013: 23 payments totalling \$406,992).

The values of each severance payment were \$50,192; \$37,324; \$28,075; \$27,500; \$25,623; \$25,462; \$24,000; \$21,868; \$19,500; \$18,554; \$16,524; \$15,042; \$15,000; \$14,975; \$14,754; \$14,000; \$10,683; \$10,235; \$10,000; \$10,000; \$9,959; \$9,567; \$9,141; \$8,000; \$7,600; \$7,531; \$7,392; \$6,958; \$6,873; \$6,017; \$6,000; \$5,419; \$4,625; \$4,516; \$3,766; \$3,755; \$3,242; \$2,725; \$346.

In addition to the above, for the year ended 30 June 2014, other members of the Group made nine severance payments to employees totalling \$77,608 (year ended 30 June 2013: five payments totalling \$78,642).

The values of each of the severance payments made by other members of the Group were \$22,000; \$21,154; \$10,220; \$7,500; \$5,000; \$4,366; \$4,000; \$2,000; \$1,368.

Explanation of major variances against budget

Group's major variances against budget

Explanations for major variations from the Group's budget figures in the budget are as follows:

Statement of comprehensive income

Development and financial contributions revenue was \$22 million above the budget

- Building and development activity is higher than anticipated leading to higher development contribution income, evidenced by the increase in building and resource consents.

Other revenue was \$145 million above budget

- The majority of the variance was due to vested assets received from developments completed in 2013/2014. There is no budget for this non-cash income as the council is unable to forecast with any degree of accuracy regarding the receipts of these vested assets.

Depreciation and amortisation was \$41 million higher than budget

- The 2013/2014 budgets were prepared before the June 2013 property revaluations were completed. Depreciation on revalued assets was under budget by \$13.5 million.
- A review of assets lives resulted in some useful lives being reduced and increasing depreciation of \$6 million.
- Depreciation of \$22 million on unbudgeted vested assets.

Other expenses were \$119 million lower than budget

- The weathertightness claims assumptions for 2014/2015 year are expected to drop significantly based on the number of potential claims estimated this year. The overall movement for this year resulted in a reduction in the total weathertightness provision of \$53 million.
- Costs were \$16 million lower than budget as a result of saving targets for local parks maintenance, graffiti expenditure and other operational efficiencies.
- The remaining difference comprises of a number of minor variances against budget.

Explanation of major variances against budget (continued)

Group's major variances against budget (continued)

Statement of financial position

Actual net assets of \$31.1 billion were \$1.1 billion higher than budget

- Due to movement in the Auckland property values, the Group revalued all land and buildings. The revaluation added \$1.1 billion to the value of the Group assets.
- Other financial assets: the council posted a \$42 million collateral against swaps for foreign denominated debt.
- Lower capital expenditure, improved cash flow from operations and favourable exchange rate movements contributed to lower debt.

Council's major variances against budget

Explanations for major variations from the council's budget figures in the budget are as follows:

Statement of comprehensive income

The following items contributed to a surplus before tax of \$656 million against a budget deficit of \$65 million.

Other revenue was \$147 million above the budget

- Dividend received from investments of \$110 million.
- During the year, \$45 million of infrastructure assets were received from developments across the region; this was not budgeted for as the council is unable to forecast or project with any degree of accuracy the receipt of vested assets.
- This is offset by gains on funds under investment of \$10 million.

Employee benefits were \$17 million higher than the budget

- The council has employed additional temporary staff during the year to meet the needs for increased projects which weren't budgeted.
- Staff increases in the building and resource unit due to additional increase in consent volumes were unbudgeted.
- Increased redundancy costs due to restructuring were unbudgeted.
- Higher payroll-related costs compared to budget due to increased headcount were not budgeted.

Other operating expenses were \$89 million lower than the budget

- There was a reduction in weathertightness costs and provisions of \$53 million against budget; however this resulted in revised assumptions in the possible number of potential claims for weathertightness in 2014/2015.
- Costs were also \$16 million lower than budget as a result of saving targets for local parks maintenance, graffiti expenditure and other operational efficiencies.
- The remaining difference comprises of a number of smaller variances against budget.

Explanation of major variances against budget (continued)

Council's major variances against budget (continued)

Statement of comprehensive income (continued)

Net other gains of \$480 million higher than the budget

- Of the total, \$412 million relates to the revaluation gain in the parks, reserves and buildings class; this is a reversal of prior year impairment.
- There was a \$75 million net increase in the fair value of financial assets, this is due to unrealised gains on foreign denominated debt - \$105 million partially offset by derivative losses.
- This was partly offset by the \$14 million loss on disposal of property, plant and equipment and intangible assets during the year.

Statement of financial position

Actual net assets of \$27.7 billion were \$785 million higher than budget

- The variance to budget was mainly due to the revaluation of property, plant and equipment which was not budgeted for (\$1.2 billion). This is due to bringing forward the revaluation cycle for parks, reserves and buildings \$645 million gain, and operational land and buildings (\$332 million gain).
- Borrowings were lower than budget by \$330 million due to lower than expected capital expenditure and favourable exchange rate movements.

Financial reporting and prudence benchmarks

Annual report disclosure statement for the year ending 30 June 2014

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 is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

The Group 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.

As the legacy councils around Auckland were amalgamated in November 2010, the first set of accounts were prepared for an eight-month period. Any balances prior to the year ended 30 June 2012 are not appropriate for inclusion in the calculation of the benchmarks and these comparatives are not presented.

The benchmarks have been prepared for the full Auckland Council Group including Watercare Services Ltd, Auckland Transport and Ports of Auckland Ltd with the exception of the debt affordability section which excludes Watercare Services Ltd and other specified debt.

Unless prescribed by the regulations, the quantified limit for each benchmark is calculated using financial information disclosed in the Group's Long-term Plan 2012-2022 including the prospective financial statements.

Financial reporting and prudence benchmarks (continued)

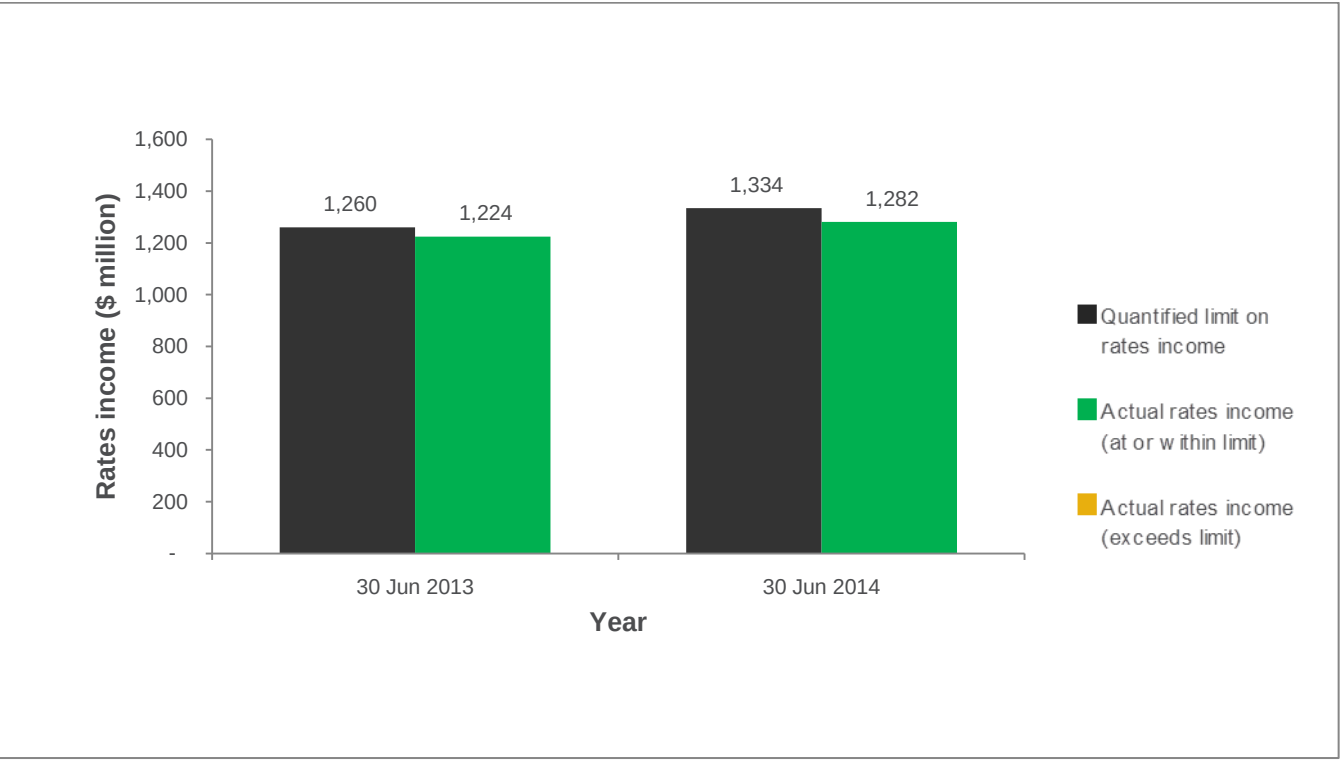
Rates affordability benchmark

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 increases equal or are less than each quantified limit on rates increases.

Rates (income) affordability

The following graph compares the Group’s actual rates income with a quantified limit on rates contained in the financial strategy included in the Group’s long-term plan. The quantified limit is the Group’s general rates income including remissions and growth in the rating base, less any internal rate charges. This does not include income arising from water and wastewater charges and targeted rates. Due to the amalgamation, 2011/2012 rates income were comprised of a single transition rate (combining both targeted and general rates) and a wastewater charge. It is therefore impossible to determine the general rates component for the 2011/2012 year and this figure has not been disclosed.

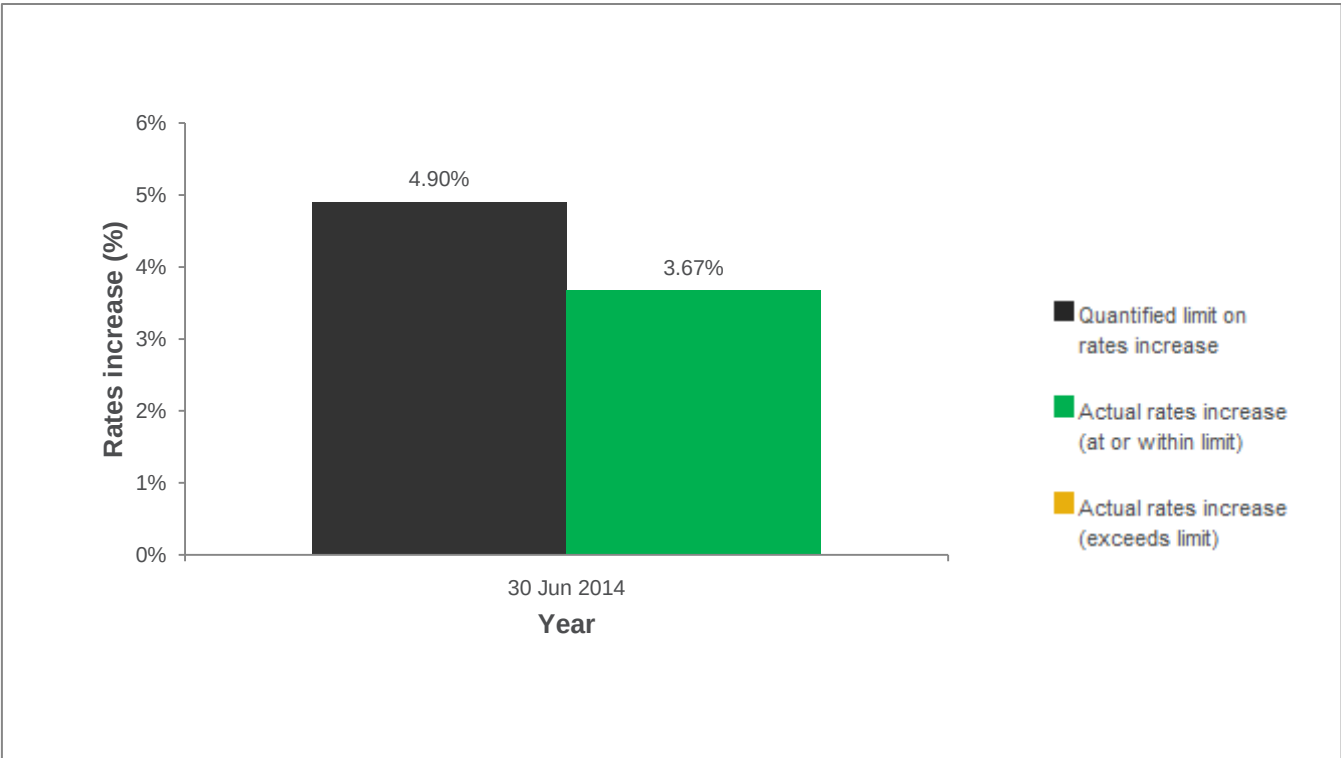


Financial reporting and prudence benchmarks (continued)

Rates affordability benchmark (continued)

Rates (increases) affordability

The following graph compares the Group’s actual rates increases with a quantified limit on rates increases included in the financial strategy included in the Group’s long-term plan. The quantified limit is calculated using the increase in general rates income, exclusive of growth in the rating base. Due to the unavailability of the actual general rates figure for the 2011/2012 year, the percentage increase for the June 2013 year has not been disclosed.



Financial reporting and prudence benchmarks (continued)

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 long-term plan:

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

For the purposes of this section as prescribed in the long-term plan, the limits exclude any income or expenses, asset or liability relating to Watercare, including revenue, debt, investments, interest income, 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.

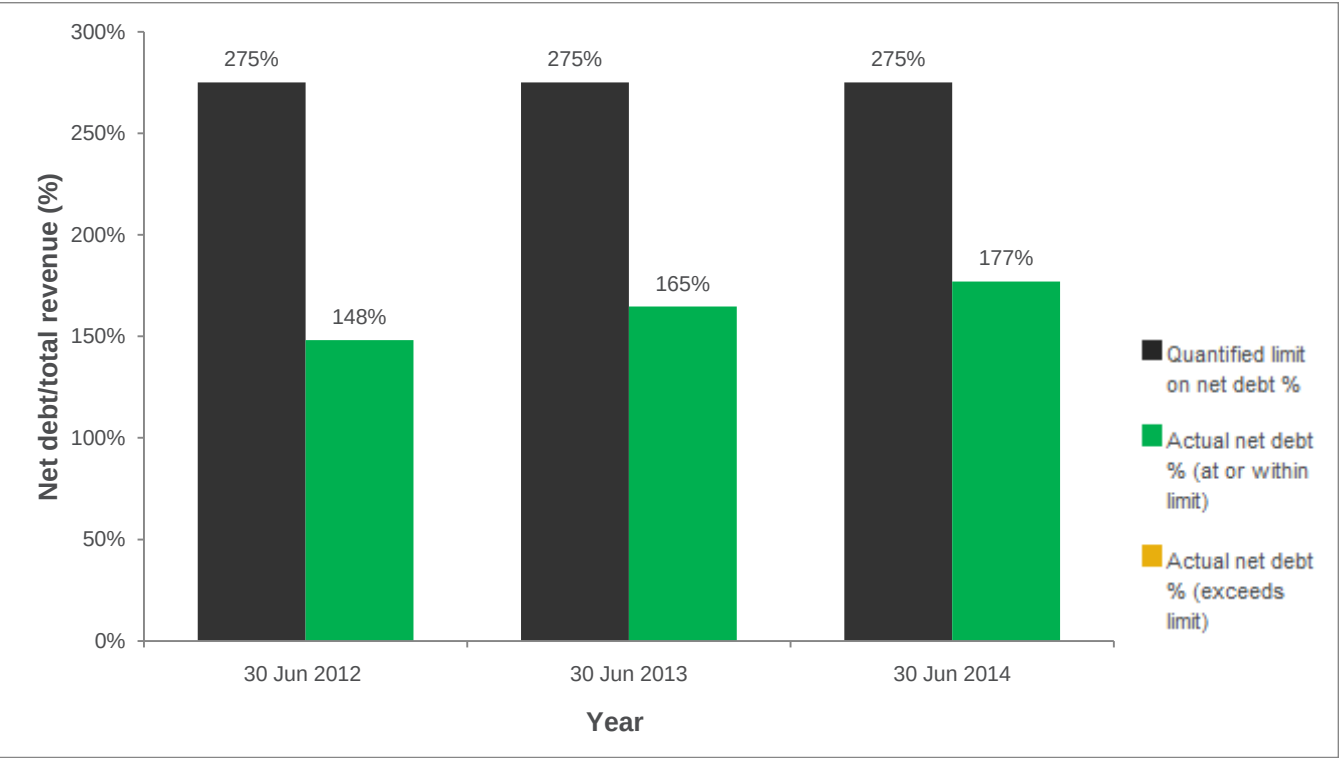
Net debt: total borrowings less cash and cash equivalents, and unit trusts. Net debt excludes guarantees to related or third parties.

Net interest: net finance expense.

Annual rates income: general and targeted rates.

Net debt as a percentage of total revenue

The following graph compares the Group’s actual borrowing with a quantified limit on borrowing stated in the financial strategy included in the Group’s long-term plan. 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.

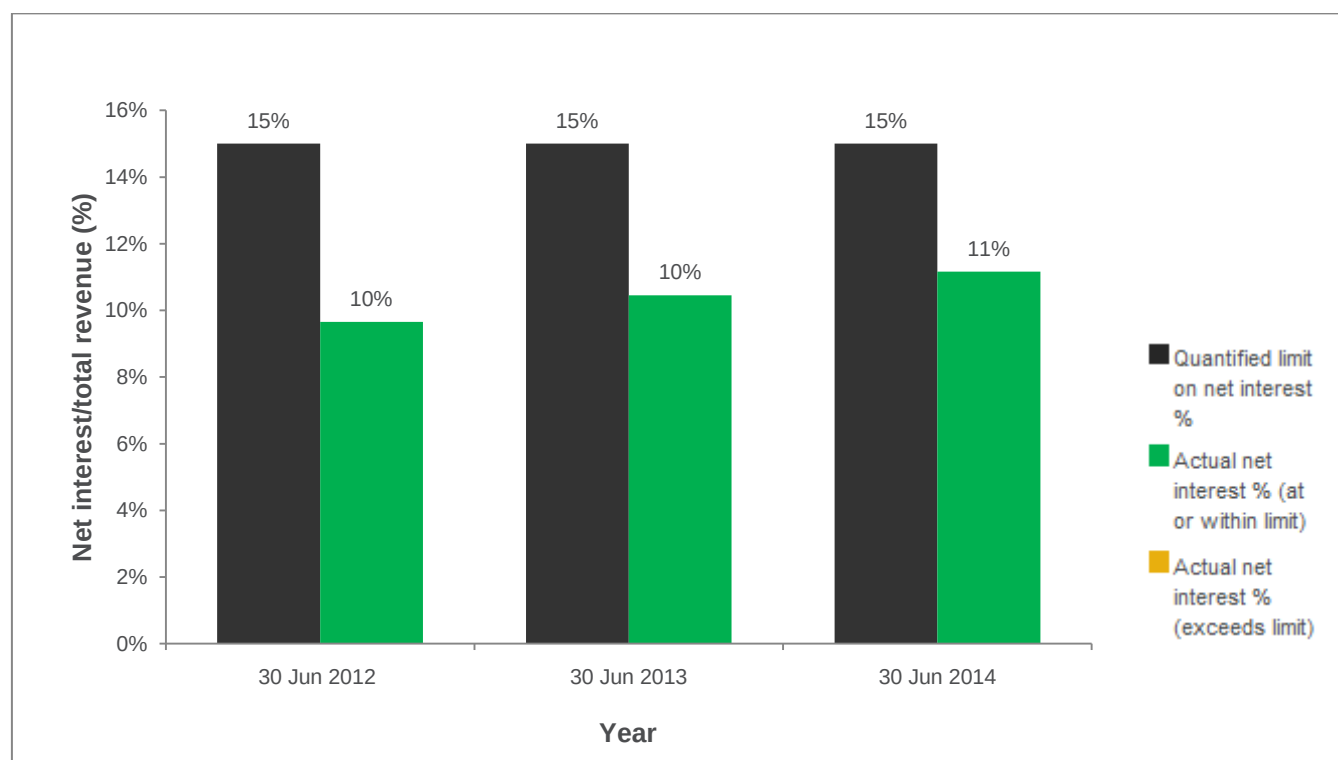


Financial reporting and prudence benchmarks (continued)

Debt affordability benchmark (continued)

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 Group's long-term plan. 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.

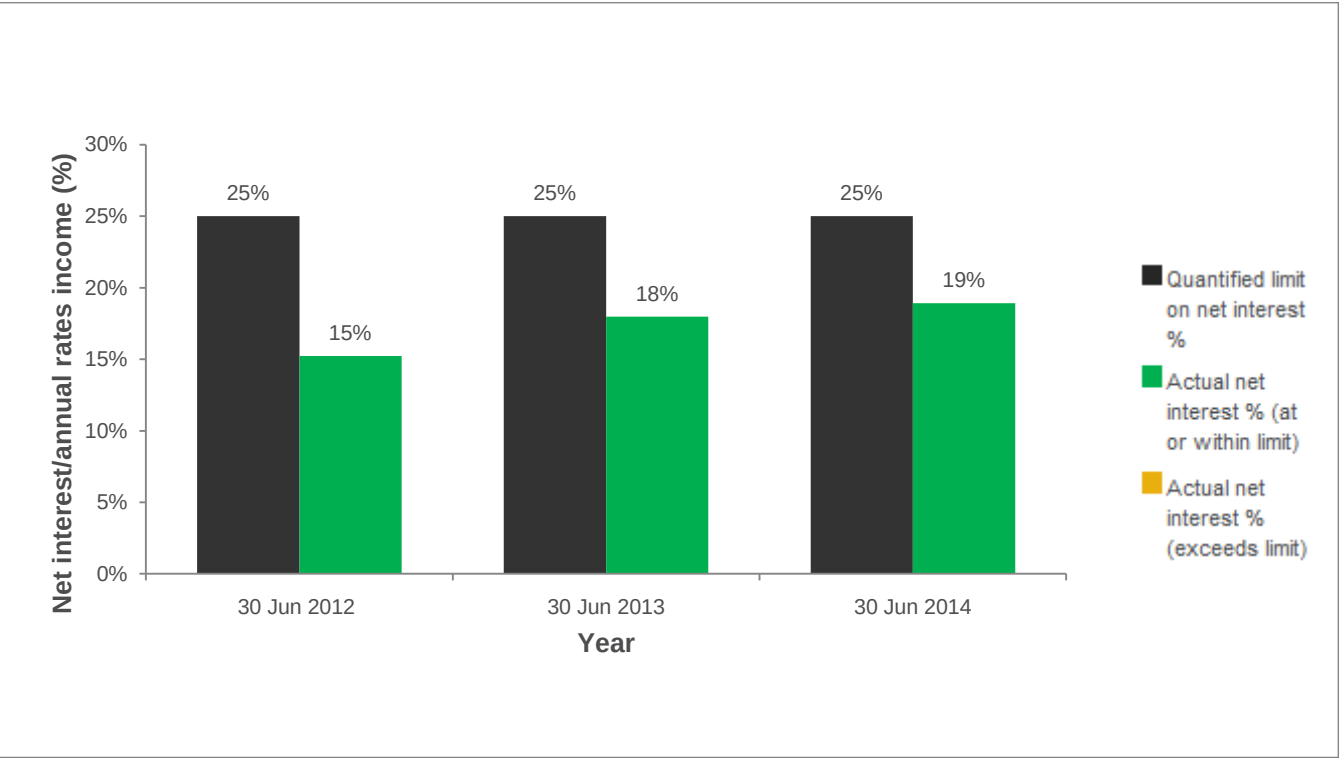


Financial reporting and prudence benchmarks (continued)

Debt affordability benchmark (continued)

Net interest as a percentage of annual rates income

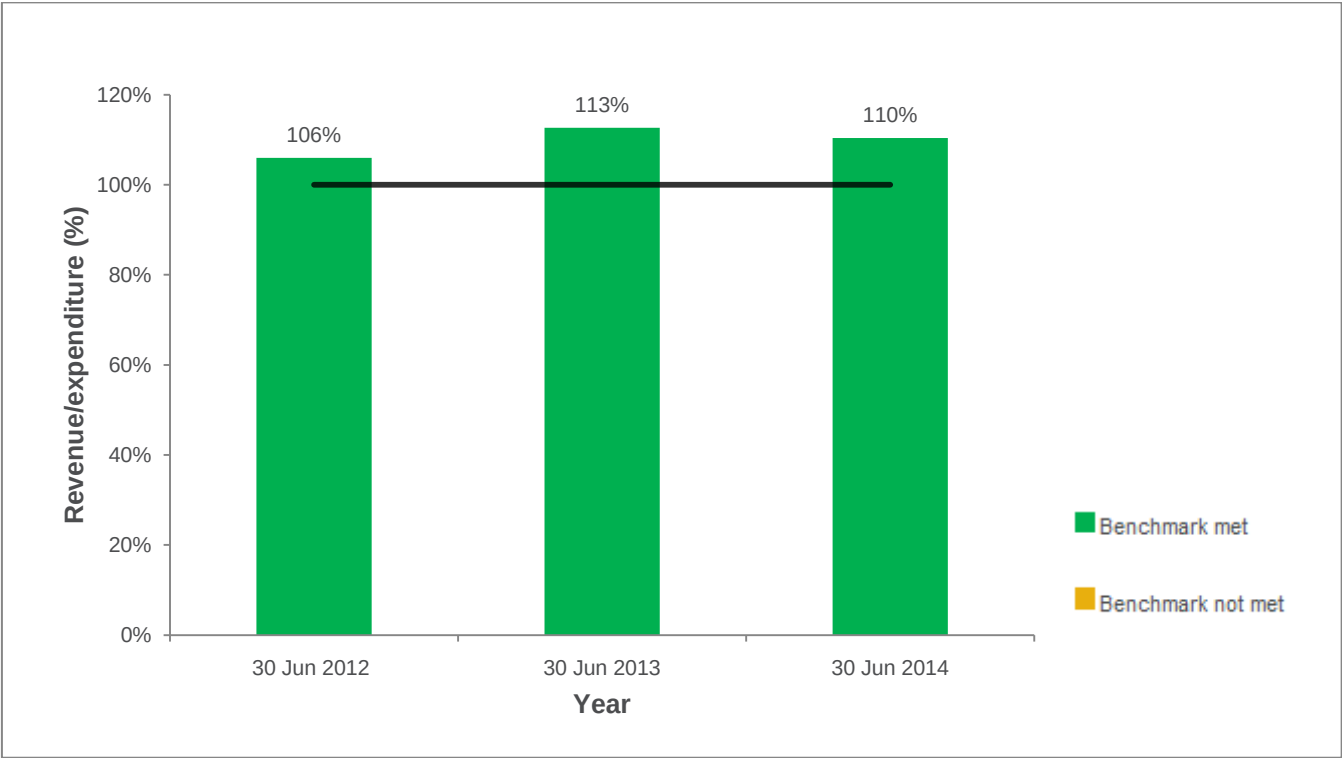
The following graph compares the Group’s actual borrowing with a quantified limit on borrowing stated in the financial strategy included in the Group’s long-term plan. The quantified limit is net interest as a percentage of annual rates income. A value less than the quantified limit of 25% indicates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



Financial reporting and prudence benchmarks (continued)

Balanced budget benchmark

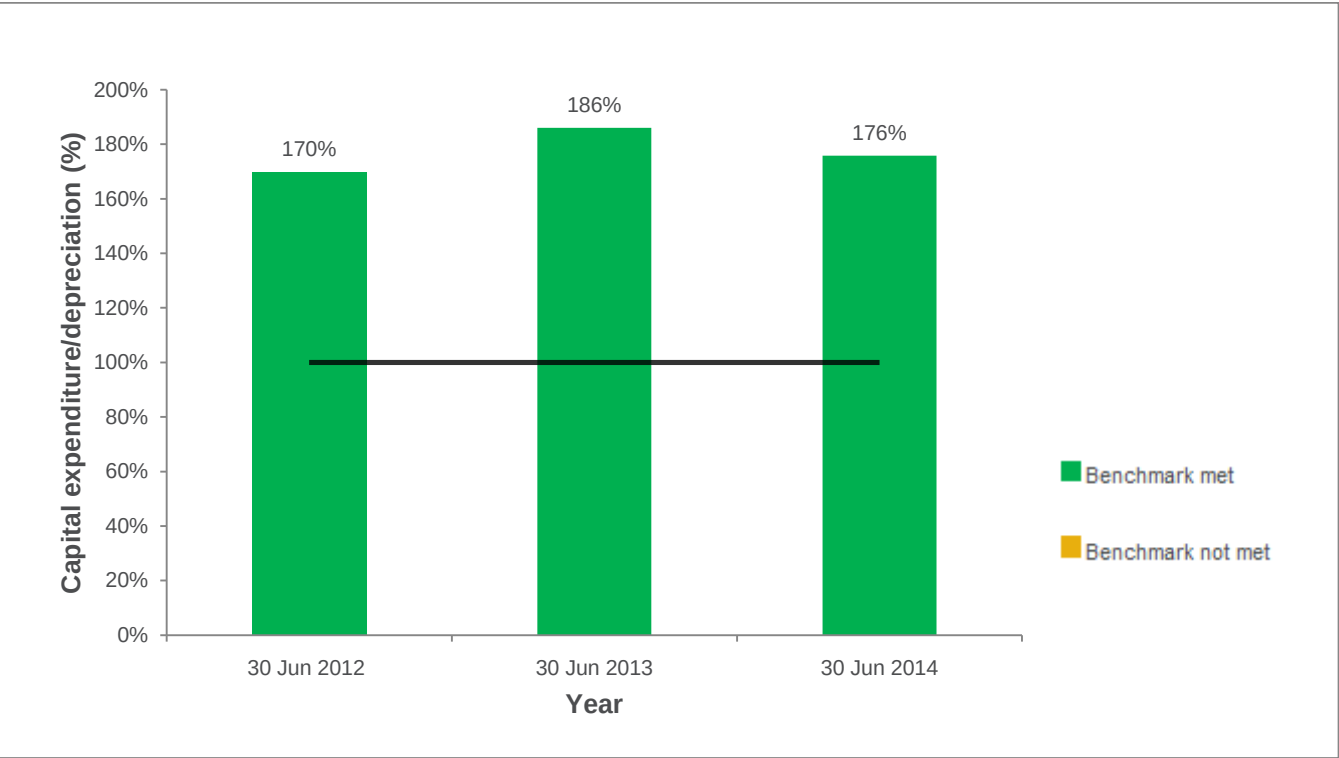
The following graph displays the Group’s revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment) as a proportion of operating expenses (excluding losses on derivative financial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



Financial reporting and prudence benchmarks (continued)

Essential services benchmark

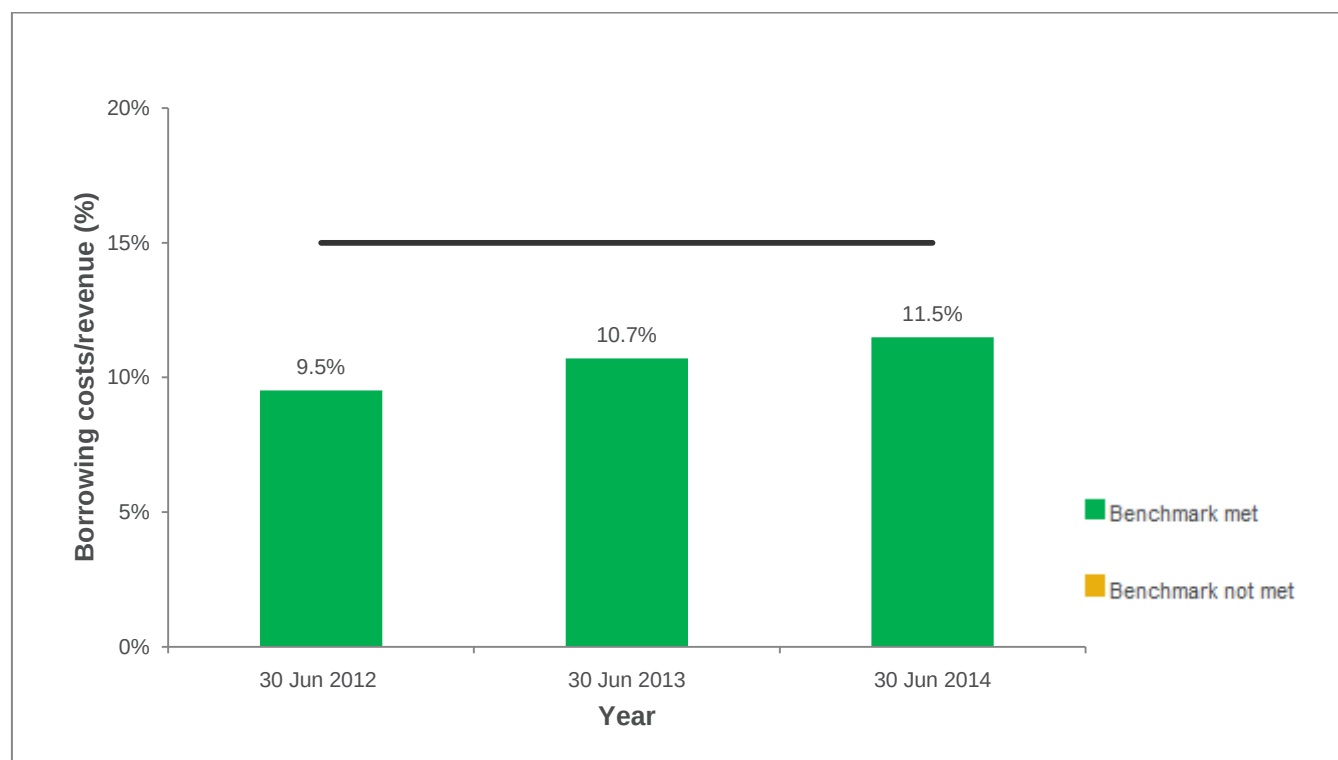
The following graph displays the Group’s capital expenditure on network services as a proportion of depreciation on network services. The Group meets this benchmark if its capital expenditure on network services equals or is greater than depreciation on network services.



Financial reporting and prudence benchmarks (continued)

Debt servicing benchmark

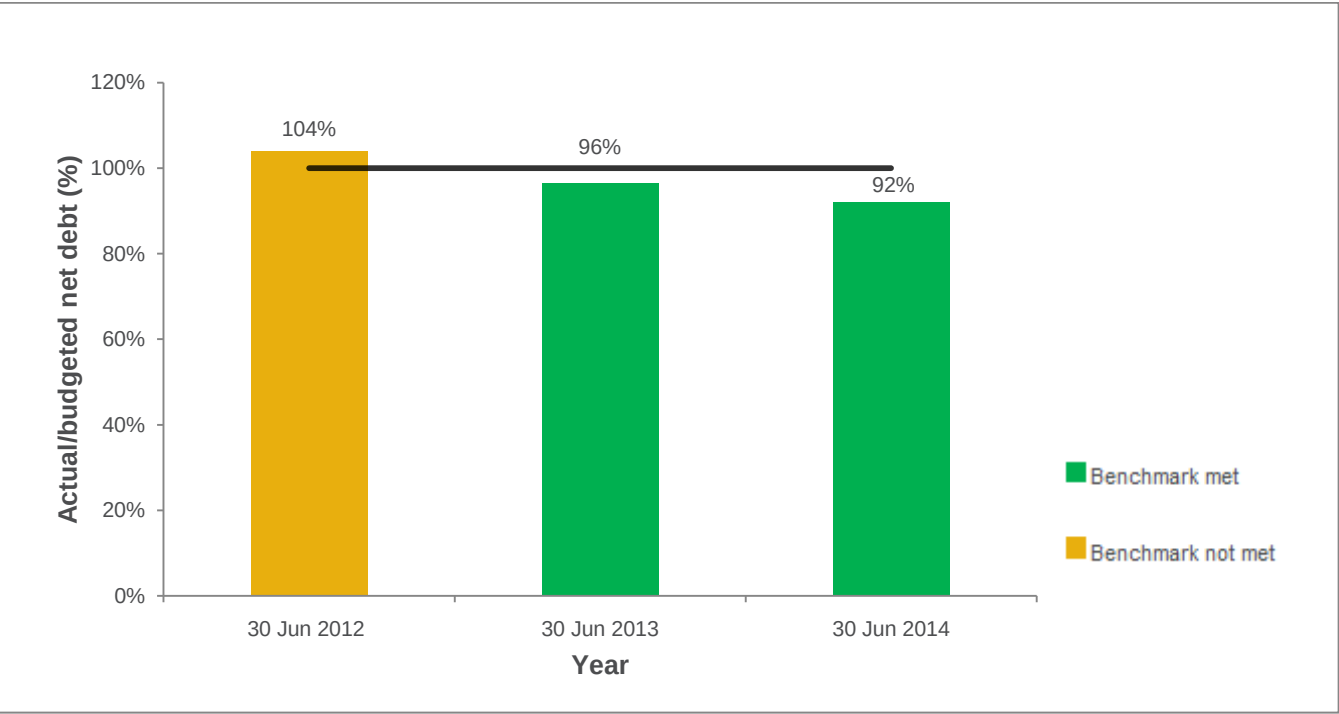
The following graph displays the Group's borrowing costs as a proportion of revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment). Because Statistics New Zealand projects the 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.



Financial reporting and prudence benchmarks (continued)

Debt control benchmark

The following 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.

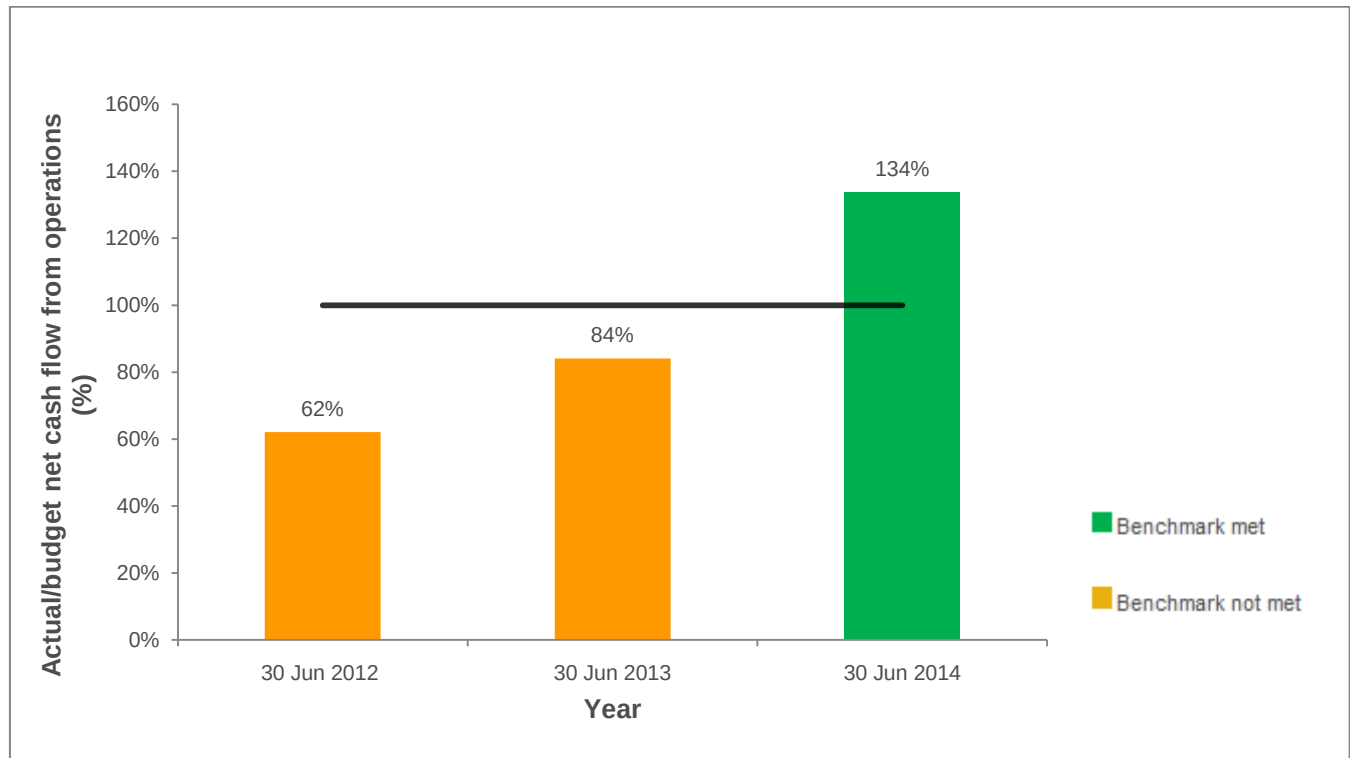


The 2012 net debt was higher than planned due to taking on debt for the purchase of electric trains in 2012, earlier than the planned 2013.

Financial reporting and prudence benchmarks (continued)

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 2012 actual cash flow was lower than planned primarily due to higher than expected costs for the delivery of council services, maintenance of council assets and temporary staff expenses. 2013 actual cashflow was less than planned due to lower than expected cash receipts from rates and other fees. For additional information, see the explanation of major variances notes of the relevant year's annual report.

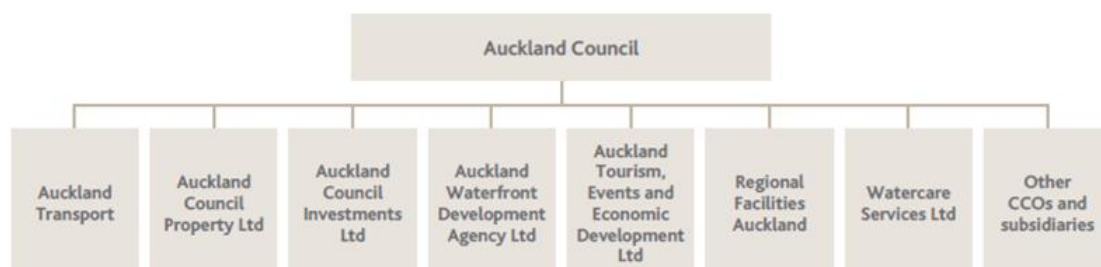
Section 3: Council-controlled organisations

Overview

A council-controlled organisation (CCO) is an organisation in which Auckland Council (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 the council, or owns or manages assets with a value of more than \$10 million. The council has seven substantive CCOs:

- Auckland Transport
- Auckland Council Property Ltd (ACPL)
- Auckland Council Investments Ltd (ACIL)
- Auckland Waterfront Development Agency Ltd (Waterfront Auckland)
- Auckland Tourism, Events and Economic Development Ltd (ATEED)
- Regional Facilities Auckland (RFA)
- Watercare Services Ltd (Watercare).



We also have a number of smaller CCOs.

ACIL owns Ports of Auckland Ltd (POAL) and Auckland Film Studios Ltd, and a large equity holding in Auckland International Airport Ltd (AIAL).

Governance of CCOs

CCO's are governed by their boards of directors or trustees, and operate at arm's length from the council. CCOs are, however, accountable to the council, which determines the objectives for each CCO and monitors their performance. The council, in turn, is accountable to its ratepayers and residents for the performance of the CCOs.

Statements of Intent (SOIs)

SOIs set out the outcomes and objectives each CCO works towards over a three-year period. Each SOI sets out the basis of accountability of the board of the CCO to the council. It includes the objectives, nature and scope of activities undertaken, and the performance targets by which performance will be measured.

Monitoring the performance of CCOs

The council's CCO Governance and Monitoring Committee is responsible for monitoring the performance of CCOs and approving policies relevant to CCO accountability. The committee is also responsible for appointing directors and approving SOIs.

Auckland Transport

Overview

Auckland Transport is responsible for managing the region's transport system. It provides all of Auckland's transport requirements (except state highways and Auckland motorways) ranging from roads and footpaths to traffic signals, and managing bus and train 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.

Directors

- Dr Lester Levy (Chairperson)
- Geoff Dangerfield
- Mark Gilbert
- Christine Fletcher
- Mike Lee
- Paul Lockey (Deputy Chairperson)
- Dr Ian Parton
- Rabin Rabindran
- Mike Williams

Objectives

Auckland Transport's purpose, as set down in the Local Government (Auckland Council) Act 2009, is 'to contribute to an effective and efficient land transport system to support Auckland's social, economic, environmental and cultural well-being'. Auckland Transport's statutory functions include:

- preparing the Regional Land Transport Programme
- managing and controlling the Auckland transport system
- carrying out research and providing education and training in relation to land transport in Auckland
- carrying out other transport-related functions as lawfully directed or delegated by the council
- carrying out functions, powers or duties in respect of state highways as lawfully delegated by the New Zealand Transport Agency.

To carry out its intended purpose and functions, Auckland Transport is fully empowered to act on behalf of the council in all activities assigned to it.

Activities

Whereas the council is responsible for the overall transport strategy and planning for the Auckland region, 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.

Auckland Transport (continued)

Subsidiaries

Auckland Transport does not have any subsidiaries.

Contribution to the council's strategies and activities

Transport is the single biggest activity undertaken by or on behalf of the council. Auckland Transport makes a contribution to a broad range of the council's objectives and two of the most important transformation shifts, being:

- Moving to an outstanding public transport network and radically improving the quality of urban living.

Auckland Transport primarily aligns to the following council strategic direction:

- Creating better connections and accessibility within Auckland, across New Zealand and to the world.

Auckland Transport directly contributes to delivering the following council groups of activities:

- transport – Auckland Transport manages and develops Auckland's transport infrastructure and services in a manner consistent with the regional land transport strategy. This includes delivery of the transport sub-activities of transport planning, public transport, road network, travel behaviour change, and parking and enforcement
- planning and regulation – Auckland Transport contributes to the delivery of city transformation projects
- lifestyle and culture – Auckland Transport contributes to the delivery of major national and international events.

Contribution to the council's vision

The council has articulated a vision for Auckland and identified the following strategic priorities that Auckland Transport contributes to:

- City Rail Link – progress initial planning, design and designations
- double public transport use (an aspirational goal), school transport plans – planning and implementation.
- airport rail link – progress initial planning, design and designations
- peak time bus journeys made faster through additional bus and transit lanes that are more clearly identifiable
- review of ferry services and present options for enhancement
- better integrated traffic management – coordination of traffic lights
- give emphasis to a review of public transport, particularly in the southern local board areas of Māngere-Otahuhu, Ōtara-Papatoetoe and Manurewa
- a third harbour crossing – report options and funding
- combat graffiti vandalism of the rail corridor through a collaborative effort between Auckland Transport and KiwiRail.

Auckland Transport (continued)

Funding assumptions

The funding assumptions that support the activities and financial performance of Auckland Transport are as follows:

- Auckland Transport will be funded by both New Zealand Transport Agency (NZTA), the council, and through their own operating revenues, such as parking
- Auckland Transport is predominantly a tax exempt entity, the exception being tax gains/losses from its port related commercial undertaking
- part of the council's capital funding will be raised through development contributions that reflect the total cost of growth-related capital expenditure by Auckland Transport
- Auckland Transport's net operating funding requirement (operating expenditure less direct income – inclusive of NZTA grants) will be funded by the council and forms part of operating expenditure in the council's financial statements, funded by the council's revenue
- capital expenditure is funded first through NZTA grants, revenue from CCO operations then from available council rates funding for capex renewals, and finally council borrowing, which is shown in council statements as an increase in equity investment in the CCO.

For information on Auckland Transport's key activities in 2013/2014, see the transport groups of activities in Volume 1 of this report.

For more information: www.aucklandtransport.govt.nz

Auckland Council Property Ltd (ACPL)

Overview

ACPL is responsible for managing the council's commercial properties, ensuring an appropriate return on these assets, and bringing a market perspective to the council's planning activities. It is also responsible for managing other selected properties, projects and activities on behalf of the council such as development at Flat Bush and the council's interest in Whitford Quarry.

Directors

- Sir John Wells (Chairperson)
- Leigh Auton
- Margaret Anne Blackburn
- Peter Wall
- Richard Aitken (Deputy Chairperson)
- Neil Barr
- Tiwana Tibble

Objectives

The objectives of ACPL are:

- to ensure properties managed for the council and Auckland Transport are maintained to be fit-for-purpose and achieve optimum net returns
- to ensure place-shaping projects involving other sector partners are efficiently planned and managed to help achieve a quality compact Auckland
- to contribute exemplar housing developments to increase the supply of housing in Auckland, particularly in the more affordable spectrum of the market
- to ensure the council's business interests are managed to protect long-term value and achieve budgeted net income
- to acquire properties for the council and Auckland Transport in a commercially robust and legally compliant manner
- to dispose of properties for the council in a commercially robust manner once declared surplus
- to provide the council with a commercial perspective on planning, development and other initiatives to support effective implementation of those initiatives.

Activities

Operationally, ACPL's activities are:

- management of properties owned by the council and Auckland Transport that are not immediately required for service or infrastructure purposes, including:
 - property which is held by the council for future service purposes but not currently used to provide service functions to the council
 - properties on roading corridors which are required for infrastructure projects
 - land held for future urban development but is currently leased for commercial activities
- management of the council's business interests in waste disposal, forestry and quarrying such as Whitford and Great Barrier Island quarries
- management of development projects that include a mixture of housing and place shaping such as:
 - Ormiston town centre development with Todd Property Group
 - Papatoetoe town centre redevelopment
 - Hobsonville Point development
- acquisitions and disposals of surplus assets for the council and Auckland Transport.

Auckland Council Property Ltd (ACPL) (continued)

Subsidiaries

ACPL does not have any subsidiaries.

Contribution to the council's strategies and activities

ACPL primarily contributes to the following council strategies:

- strong governance – ACPL aims to provide an appropriate return on commercial property and activities under ACPL's management, and to bring a commercial perspective to all the council's planning initiatives
- quality built environment – ACPL aims to bring a market perspective to place-shaping initiatives as well as managing selected property projects and encouraging private sector collaboration.

ACPL directly contributes to the delivery of the following council group of activities:

- commercial and investment – ACPL manages the council's commercial property activities and some other commercial activities in a way that optimises returns while supporting other council objectives.

Contribution to the council's vision

The council has articulated its vision for Auckland and identified the following strategic priority that ACPL is expected to contribute to:

- consolidation of the council's property portfolio.

Funding assumptions

The funding assumptions that support the activities and financial performance of ACPL are as follows:

- ACPL is a tax paying entity
- ACPL will charge a management fee to the council for undertaking the management of properties, projects and transactions
- as ACPL does not own the properties it manages, any funding for capital works of the properties will come from the council

For information on ACPL's key activities in 2013/2014, see the commercial groups of activities in Volume 1 of this report.

For more information: www.acpl.co.nz

Auckland Council Investments Ltd (ACIL)

Overview

ACIL owns Ports of Auckland Ltd (POAL), Auckland Film Studios Ltd (AFSL), and a large equity holding in Auckland International Airport Ltd (AIAL). It also manages the diversified financial assets (DFA) portfolio on behalf of the council.

The purpose of ACIL is to support the council's vision and to bring a strong commercial focus to the ownership and management of the council's investments in POAL, AIAL, AFSL and the DFA portfolio and to provide an efficient structure for the ownership of these assets.

Directors

- Simon Allen (Chairperson)
- Brian Corban
- Diana Puketapu
- Miriam Dean (Deputy Chairperson)
- Candis Craven

Objectives

The objectives of ACIL include:

- to bring a strong commercial focus to the ownership and governance of the council's major investment assets while recognising and making significant contribution to the council's objectives for the public good
- to provide an efficient structure for the ownership of the assets.

In support of its objectives, ACIL aims to:

- optimise the value of the investments under its management, both in terms of short-term returns and longer term increases in value
- ensure the council is advised of strategic issues relating to the investments held by ACIL
- distribute available income and other returns in a cost-effective manner, as agreed with the council.

Activities

The activities of ACIL include:

- management of the council's major financial investments

Auckland Council Investments Ltd (ACIL) (continued)

Contribution to the council's strategies and activities

ACIL primarily contributes to the following council strategy:

- strong governance – ACIL provides a strong commercial focus to the ownership and governance of the council's major financial investments and provides an efficient structure for the ownership of those assets.

ACIL directly contributes to the delivery of the following council group of activities:

- commercial and investment – ACIL manages the council's equity and financial investments and distributes income and other returns to the council.

Contribution to the council's vision

The council has articulated its vision for Auckland and identified the following strategic priorities that ACIL is expected to contribute to:

- keeping strategic assets in public ownership.
- managing assets including Ports of Auckland and Auckland International Airport shares, strategically and prudently to optimise their long-term benefit for the region.

Funding assumptions

The funding assumptions that support the activities and financial performance of ACIL are as follows:

- ACIL is a tax paying entity
- ACIL is expected to generate surpluses and hence will not require any funding for its operations from the council
- cash operating surpluses generated by ACIL are assumed to be returned to the council in the form of a dividend
- The DFA portfolio managed by ACIL provides both short and long-term financial returns to the council and are managed in accordance with the statement of investment policies and objectives and operational investment policies and objectives.

For information on ACIL's key activities in 2013/2014, see the investment group of activities in Volume 1 of this report.

For more information:

www.aucklandcouncil.govt.nz/EN/ABOUTCOUNCIL/REPRESENTATIVESBODIES/CCO/Pages/council_investments.aspx

Auckland Waterfront Development Agency Ltd (Waterfront Auckland)

Overview

Waterfront Auckland is responsible for leading waterfront development consistent with the council's vision. Waterfront Auckland owns and manages a large portion of the Auckland waterfront from Harbour Bridge Park in the west to Teal Park in the east (excluding Ports of Auckland). Its area of influence extends as far inland as the original shoreline of 1840.

Directors

- Sir Bob Harvey (Chairperson)
- Ngirimu Blair
- Evan Davies
- Kerry Stotter
- Adrienne Young-Cooper (Deputy Chairperson)
- Christine Caughey
- Terry Kayes

Objectives

The objectives of Waterfront Auckland are to deliver:

- a public waterfront – a place for all Aucklanders and visitors to Auckland, a destination that is recognised for its outstanding design and architecture, public spaces, facilities and events; a place where we can express our cultural heritage and history, and celebrate our great achievements as a city and nation
- a working waterfront – a place for marine industries and businesses, local and international port activities; an attractor of further high value business investment and activity, the location that supports authentic and gritty waterfront activities that must be located here
- a growing waterfront – the critical location of urban transformation and renewal in Auckland, where we must demonstrate international best practice and innovation, achieve a significant lift in Auckland's and New Zealand's productivity, create the most liveable of New Zealand's central city urban communities, and encourage a vibrant mix of residents, businesses and employees, visitors and activities
- a connected waterfront – a place where people are highly connected locally and with the inner city, and to the rest of Auckland and New Zealand; a place that is highly accessible and safe for pedestrians, cyclists, and passengers, with telecommunications that supports connectivity.

Waterfront Auckland will work to deliver these objectives through:

- a successful business managed under strong commercial and financial disciplines
- a highly innovative, sustainable organisation with skilled staff supported by efficient and robust business systems
- demonstrated excellence in operational areas with a major customer service provision e.g. marina operations, and rental and lease operations.

Auckland Waterfront Development Agency Ltd (Waterfront Auckland)

Activities

The activities of Waterfront Auckland include:

- developing and advocating spatial planning policies, concept and precinct plans
- sustainable urban renewal and development
- urban design and city building
- portfolio management (assets and property)
- project management and delivery (public spaces and private development)
- activation and place management
- development and management of marinas, wharves and water spaces.

Contribution to the council's strategies and activities

Waterfront Auckland primarily contributes to the following council strategies:

- quality built environment – developing property that delivers high-quality architecture, quality urban design and public open space, improved connections, and integration with the CBD and surrounding city
- transport choices – we are focused on providing sustainable transport choices for people to access the waterfront
- thriving economy – playing a major role in growing the region's economy by making Auckland's waterfront a gateway and destination that attracts business and visitors
- outstanding natural environment – managing New Zealand's most beautiful urban waterfront, with a focus on environmental quality and strong communities – as a place maker, its role is to provide the physical and social infrastructure to provide for community needs, and to activate places and spaces enabling residents, workers and visitors to feel welcome and have a strong sense of belonging
- lifestyle choices – provide recreation and leisure opportunities in a prime CBD location through development of public open space around the waterfront, and operation and development of marina facilities and services.

Waterfront Auckland also directly contributes to the delivery of the following council groups of activities:

- commercial and investment – optimise the development and management of the waterfront assets to generate long-term commercial returns for our shareholders and economic returns for Auckland
- planning and regulation – develop and implement strategies and plans to transform the waterfront into an area Aucklanders and visitors can enjoy and which can commercially prosper. Create places and spaces where we can express and celebrate our cultural heritage and maritime history.

Contribution to the council's vision

The council has articulated its vision for Auckland and identified the following strategic priorities that Waterfront Auckland is expected to contribute by:

- developing and delivering a Waterfront Master Plan
- planning and delivering urban transformation projects
- activating and managing waterfront places and spaces.

Auckland Waterfront Development Agency Ltd (Waterfront Auckland)

Funding assumptions

The funding assumptions that support the activities and financial performance of Waterfront Auckland are as follows:

- Waterfront Auckland is a tax paying entity
- operational funding for public space activities will be from the council. Operational funding for marina and commercial activities will be sourced from internal cash flows
- cash received from the sale of leases which results in operating surpluses are assumed to be used to reduce borrowing otherwise required to fund commercial activities
- public space capital works will be funded from funds available from Waterfront Auckland operations or from equity investment by the council. Capital works for commercial development will be funded by borrowing
- capital works on the marinas will be internally funded by revenue generated by the marinas to the extent possible, and any shortfall will be funded by borrowing
- from 1 July 2012, the council is able to require development contributions to fund its contribution to the total cost of growth-related capital expenditure by Waterfront Auckland.

For information on Waterfront Auckland's key activities in 2013/2014, see the economic development section in Volume 1 of this report.

For more information: www.waterfrontauckland.co.nz

Auckland Tourism, Events and Economic Development Ltd (ATEED)

Overview

ATEED is responsible for bringing a consistent and integrated region-wide approach to economic development, tourism and events promotion to help lift Auckland region's economic performance and support it in competing internationally.

Directors

- David McConnell (Chairperson)
- Vivien Bridgwater
- Franceska Banga
- Helen Robinson
- Norm Thompson (Deputy Chairperson)
- Richard Jeffery
- Danny Chan

Objectives

The objectives of ATEED include:

- to lift Auckland's economic well-being
- to support and enhance Auckland's performance as a key contributor to the New Zealand economy
- to support and enhance Auckland's ability to compete internationally as a desirable place to visit, live, work, invest, and do business in.

Activities

The activities of ATEED include:

- providing destination management and marketing services that promote Auckland domestically and off-shore and support the development of Auckland's tourism 'product'.
- attracting, funding, facilitating and leveraging major events to support economic growth and the performance and profile of Auckland
- attracting and retaining productive businesses and investment
- building a culture of innovation and entrepreneurship to develop high-potential economic sectors and businesses
- Supporting the growth of a skilled workforce and enabling education and talent development, attraction and retention
- building Auckland's brand and identity
- interacting with central government agencies such as the Ministry of Business, Innovation and Employment, Tourism New Zealand and New Zealand Trade and Enterprise as well as the private sector and non-governmental organisations to ensure a coordinated approach to meeting economic development and tourism goals.

Contribution to the council's strategies and activities

ATEED primarily contributes to the following council strategies:

- thriving economy – ATEED plays a key role in attracting people and investment, providing jobs and supporting a good standard of living for all across the region
- lifestyle choices – ATEED contributes to providing major world-class visitor experiences and events to Auckland.

Auckland Tourism, Events and Economic Development Ltd (ATEED)

Contribution to the council's strategies and activities (continued)

ATEED directly contributes to the delivery of the following council groups of activities:

- economic development – ATEED is pivotal in the delivery of the council's economic development activities, including responsibility for attracting new business investment and retaining business in Auckland, providing advice and support to help businesses and industry sectors grow, and delivering programmes to foster entrepreneurship and innovation
- lifestyle and culture – ATEED contributes to making Auckland dynamic, exciting and distinctive by supporting the development of world-class visitor experiences and infrastructure that contribute to Auckland's lifestyle choices and amenity, and by attracting major events and providing them with the logistical and operational support for their duration.

Contribution to the council's vision

The council has articulated its vision for Auckland and identified the following strategic priorities that ATEED is expected to contribute to:

- implement an events strategy for major events for Auckland, including a focus on cultural events
- assist the council, as required, to progress the development of the New Zealand International Convention Centre
- leverage off international partnerships
- maintain a sub-regional economic development focus, including ensuring the continued delivery of business awards

Funding assumptions

The funding assumptions that support the activities and financial performance of ATEED are as follows:

- ATEED is a tax paying entity
- ATEED will charge a service fee to the council for undertaking its activities. The payment of the service fee will cover the cost of the day to day running expenses of ATEED
- ATEED looks to generate or leverage third party revenue where it can, which is used to reduce the funding requirement from the council

For information on ATEED's key activities in 2013/2014, see the economic development section in Volume 1 of this report.

For more information: www.businessaucklandnz.com

Regional Facilities Auckland (RFA)

Overview

RFA is responsible for providing a regional perspective for the development of Auckland's arts, culture and heritage, leisure and sport and entertainment venues including Auckland Art Gallery—Toi o Tāmaki, ANZ Viaduct Events Centre, Auckland Zoo, Mt Smart Stadium, QBE Stadium, Bruce Mason Centre, Western Springs and Auckland Live® (including Aotea Centre, Civic Theatre, south Town Hall and Aotea Square).

Directors

- Rt. Hon. Sir Don McKinnon (Chairperson)
- John Avery
- Geoff Clews
- Rukumoana Tira Marie Schaafhausen
- Gary Troup
- Dame Jenny Gibbs (Deputy Chairperson)
- Lisa Bates
- John Robertson
- Peter Stubbs

Objectives

The objectives of RFA include:

- to support the vision of Auckland as a vibrant city of the South Pacific, that attracts high-quality events and promotes the social, economic, environmental, and cultural well-being of its communities by providing regional facilities throughout Auckland for the engagement of those communities (and visitors to Auckland) daily in arts, culture, heritage, leisure, sport, and entertainment activities
- develop and maintain a range of world-class arts, culture, heritage, leisure, sport, and entertainment venues that are attractive both to residents of and visitors to Auckland, while applying a regional perspective.

Activities

The activities of RFA include:

- operation of regional facilities where they are integrated into this CCO on behalf of the council: Auckland Art Gallery Toi o Tāmaki, Auckland Zoo, ANZ Viaduct Events Centre, Mount Smart Stadium, QBE Stadium, Bruce Mason Centre, Western Springs Stadium, Auckland Live®
- management of the council's interests in achieving its objectives through regional facilities affiliated with RFA: North Shore Events Centre, The Trusts Stadium, Voyager Maritime Museum, and Stardome Observatory.

Regional Facilities Auckland (RFA) (continued)

Contribution to the council's strategies and activities

RFA primarily contributes to the following council strategies:

- lifestyle choices – RFA plays a key role in providing access to a wide range of recreation, leisure and arts opportunities, attractions including the zoo, museums and art galleries, and a world-class programme of international, national, regional and local events
- thriving economy – RFA attracts visitors and provides jobs through its world-class events, venues and activities.

RFA directly contributes to the delivery of the following council group of activities:

- lifestyle and culture – RFA manages and oversees key facilities with a focus on making better use and coordination of Auckland's major venues and attractions.

Contribution to the council's vision

The council has articulated its vision for Auckland and identified the following strategic priorities that RFA is expected to contribute to:

- continue streamlining the management and operations of regional facilities where possible in order to create synergies and efficiencies
- manage facilities and collections to the highest standard within budget constraints
- ensure local communities' access to regional facilities while managing those facilities with a regional approach
- develop a regional strategy for the management of major venues and collections which is consistent with the relevant policies of the council.

Funding assumptions

The funding assumptions that support the activities and financial performance of RFA are as follows:

- RFA has been approved by the Charities Commission as a charitable trust and therefore is tax exempt
- operational funding, being the funding of the day-to-day operating expenses of RFA, will be provided by the council
- RFA will generate revenue from its operations (e.g. user charges, events income), which will be used to reduce the operational funding requirement from the council
- funding for capital works will be provided by the council.

For information on RFA's key activities in 2013/2014, see the regional collections and amenities groups of activities in Volume 1 of this report.

For more information:

www.aucklandcouncil.govt.nz/EN/AboutCouncil/representativesbodies/CCO/Pages/regional_facilities.aspx

Watercare Services Ltd

Overview

Watercare is responsible for water and wastewater services in the Auckland region. 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 Ltd, which manages the local networks and retailing of water and wastewater in the Papakura area under a franchise agreement while Watercare owns the assets.

Directors

- | | |
|------------------------------|-----------------------------------|
| • David Clarke (Chairperson) | • Mike Allen (Deputy Chairperson) |
| • Peter Drummond | • Catherine Harland |
| • Susan Huria | • Julia Hoare |
| • Tony Lanigan | • Nicola Crauford |

Objectives

Watercare's objectives are reflected in the company's vision 'to provide outstanding and affordable water services to all the people of Auckland.' 'Outstanding' means Watercare will provide safe drinking water, promote efficient water use, and protect waterways and the environment through the effective transport and treatment of wastewater.

Affordable water services means Watercare will run an efficient business and actively manage the overall costs of services to customers (collectively), recognising the diversity of Auckland's local communities.

Activities

The activities of Watercare include:

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

Contribution to the council's strategies and activities

As the regional provider of water and wastewater services, Watercare plays an important role in the health, prosperity and well-being of Auckland communities.

The company has a sound record as a good corporate citizen, committed to the delivery of cost-effective services that consider the social, economic and environmental impacts of decisions as well as transparent and accountable reporting.

Watercare collaborates and works closely with other stakeholders to ensure community-focused outcomes are achieved. Watercare participates in regional planning processes to ensure the infrastructure needs of the region are well understood and appropriately integrated into regional plans, ensuring the current and future social economic and environmental needs of the community can be met in the most cost-effective way.

Watercare Services Ltd

Contribution to the council's strategies and activities (continued)

Watercare primarily contributes to the following council strategies:

- outstanding natural environment – Watercare contributes to enhancing Auckland's unique natural environment, including its harbours, waterways and beaches through the effective transport and treatment of wastewater
- strong communities – Watercare contributes to safe communities by providing safe drinking water, promoting efficient water use, and protecting waterways and the environment.

Watercare directly contributes to the delivery of the following council groups of activities:

- water supply and wastewater – Watercare is responsible for providing safe, healthy drinking water and high-quality wastewater services that are economically viable, environmentally sound, sustainable and responsive to customer needs.

Contribution to the council's vision

The council has articulated its vision for Auckland and identified the following strategic priorities that Watercare is expected to contribute to:

- focus on demand management, conservation, environmental quality and sustainability initiatives, including reducing pollution in Auckland's harbours
- review of options for wastewater treatment in outlying communities
- approach for non-payment of accounts to be 'working with people' rather than punitive action, e.g. water restrictions.

Funding assumptions

The funding assumptions that support the activities and financial performance of Watercare are as follows:

- Watercare is a tax paying entity
- Operational funding, being the funding of day-to-day operating expenses of Watercare, will be sourced from revenue
- Capital expenditure will be funded by borrowings and from operating surplus
- Watercare is prohibited from paying a dividend; any surplus funds are assumed to reduce borrowing.
- All water and wastewater activities are funded directly through Watercare revenues from 1 July 2012 apart from charges related to a wastewater services contract with the Royal New Zealand Air Force (RNZAF) which will be billed by the council and transferred to Watercare, until Watercare negotiates a new contract with the RNZAF.

For information on Watercare's key activities in 2013/2014, see the water supply and wastewater groups of activities in Volume 1 of this report.

For more information: www.watercare.co.nz

Section 4: Auditor-General's report



CONTROLLER AND AUDITOR-GENERAL
Tumuaki o te Mana Arotake

Independent Auditor's Report

To the readers of Auckland Council and Group's annual report for the year ended 30 June 2014

I have used my staff and resources, and appointed auditors and their staff to audit:

- the financial statements of Auckland Council and Group that comprise:
 - the statements of financial position as at 30 June 2014 in Volume 3 on page 5;
 - the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ending 30 June 2014 in Volume 3 on page 4 and pages 6 and 7;
 - the funding impact statement of the Auckland Council Group in Volume 1 on page 17;
 - the statements about budgeted and actual capital expenditure in relation to each group of activities of Auckland Council Group in Volume 1 on pages 117 to 165; and
 - the notes to the financial statements that include accounting policies and other explanatory information about the financial statements in Volume 3 on pages 8 to 68;
- the statements of service performance (referred to as statements of non-financial performance) of Auckland Council Group in Volume 1 on pages 20 to 115 and the funding impact statements in relation to each statement of non-financial performance of Auckland Council Group in Volume 1 on pages 117 to 165;
- the local board reports required by clause 34A of schedule 10 of the Local Government Act 2002 in Volume 2 on pages 22 to 233; and
- the disclosures of Auckland Council that are required by the Local Government (Financial Reporting and Prudence) Regulations 2014 in Volume 3 on pages 85 to 95.

In addition, I report on whether the Auckland Council and Group's annual report complies with the Other Requirements of schedule 10 of the Local Government Act 2002, where applicable, by including:

- information about:
 - council-controlled organisations in Volume 3 on pages 97 to 113;
 - reserve funds in Volume 3 on page 72;

Auditor General's report (continued)

- each statement of non-financial performance carried out by Auckland Council Group in Volume 1 on pages 20 to 115;
- remuneration paid to the elected members and certain employees of Auckland Council in Volume 3 on page 67 and pages 74 to 79;
- employee staffing levels and remuneration in Volume 3 on pages 80 and 81; and
- severance payments in Volume 3 on page 82;
- a report on the activities undertaken by Auckland Council Group to establish and maintain processes to provide opportunities for Maori to contribute to Auckland Council Group's decision-making processes in the Overview on pages 16 and 17; and
- a statement of compliance signed by the mayor of the Council and by Auckland Council's chief executive in Volume 3 on page 2 .

Opinion

Audited information

In my opinion:

- the financial statements of Auckland Council and Group in Volume 3 on pages 4 to 84:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect Auckland Council and Group's:
 - financial position as at 30 June 2014; and
 - the results of its operations and cash flows for the year ended on that date.
- the funding impact statement of Auckland Council Group in Volume 1 on page 17, fairly reflects 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 Group's annual plan.
- the statements about budgeted and actual capital expenditure in relation to each statement of non-financial performance of Auckland Council Group in Volume 1 on pages 117 to 165, fairly reflect, by each group of activities, the capital expenditure spent as compared to the amounts budgeted and set out in the Auckland Council Group's long-term plan or annual plan.
- the statements of non-financial performance of Auckland Council Group in Volume 1 on pages 20 to 115:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect Auckland Council Group's levels of service for the year ended 30 June 2014, including:

Auditor General's report (continued)

- the levels of service as measured against the intended levels of service adopted in the long-term plan; and
 - the reasons for any significant variances between the actual service and the expected service.
- the funding impact statements in relation to each group of activities of Auckland Council Group in Volume 1 on pages 117 to 165, fairly reflect, by each group of activities, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in Auckland Council Group's long-term plan.
- the local board reports in Volume 2 on pages 22 to 233, fairly reflect the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in Auckland Council's long-term plan.
- the disclosures in Volume 3 on pages 85 to 95 represent a complete list of required disclosures and accurately reflects the information drawn from Auckland Council and Group's audited information.

Compliance with the other requirements of schedule 10

In my opinion, which is not an audit opinion, Auckland Council and Group's annual report complies with the Other Requirements of schedule 10 that are applicable to the annual report.

My audit was completed on 25 September 2014. This is the date at which my opinion is expressed.

The basis of my opinion is explained below. In addition, I outline the responsibilities of the Council and my responsibilities, and I explain my independence.

Basis of opinion

Using my staff and appointed auditors and their staff, I have carried out my audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that I comply with ethical requirements and plan and carry out my audit to obtain reasonable assurance about whether the information I audited is free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in my judgement, are likely to influence readers' overall understanding of the financial statements and statements of non-financial performance. If material misstatements had been found that were not corrected, I would have referred to them in my opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the information I audited. The procedures selected depend on the judgements of my staff and appointed auditors and their staff, including my assessment of risks of material misstatement of the information I audited, whether due to fraud or error. In making those risk assessments, I consider internal control relevant to Auckland Council and Group's preparation of the information I audited that fairly reflect the matters to which they relate. I consider internal control in order to design procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Auckland Council and Group's internal control.

Auditor General's report (continued)

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Council;
- the adequacy of all disclosures in the audited information;
- determining the appropriateness of the reported non-financial performance within the Council's framework for reporting performance; and
- the overall presentation of the audited information.

My staff and appointed auditors and their staff did not examine every transaction, nor do I guarantee complete accuracy of the information I audited.

When reporting on whether the annual report complies with the Other Requirements of schedule 10 of the Local Government Act 2002, my procedures were limited to making sure the information required by schedule 10 was included in the annual report, where relevant, and identifying material inconsistencies, if any, with the audited information. This work was carried out in accordance with International Standard on Auditing (New Zealand) 720; The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements. As a result I do not express an audit opinion on Auckland Council's compliance with the requirements of schedule 10.

I did not evaluate the security and controls over the electronic publication of the information we are required to audit and report on. I have obtained all the information and explanations I have required and I believe I have obtained sufficient and appropriate evidence to provide a basis for my opinion.

Responsibilities of the Council

The Council is responsible for preparing:

- financial statements and statements of non-financial performance that:
 - comply with generally accepted accounting practice in New Zealand;
 - fairly reflect Auckland Council and Group's financial position, financial performance and cash flows; and
 - fairly reflect its service performance, including achievements compared to forecast.
- a funding impact statement in relation to each statement of non-financial performance that fairly reflects the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in Auckland Council Group's annual plan;
- funding impact statements in relation to each statement of non-financial performance that fairly reflect, by each group of activities, 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 Group's long-term plan;

Auditor General's report (continued)

- statements about budgeted and actual capital expenditure in relation to each statement of non-financial performance that fairly reflect, by each group of activities, the capital expenditure spent as compared to the amounts budgeted and set out in the Auckland Council Group's long-term plan or annual plan;
- local board reports in accordance with clause 34A of schedule 10 of the Local Government Act 2002 that fairly reflect the required information;
- disclosures in accordance with the requirements of the Local Government (Financial Reporting and Prudence) Regulations 2014; and
- the other information in accordance with the other requirements of schedule 10 of the Local Government Act 2002.

The Council is responsible for such internal control as it determines is necessary to ensure that the annual report is free from material misstatement, whether due to fraud or error. The Council is also responsible for the publication of the annual report, whether in printed or electronic form.

The Council's responsibilities arise under the Local Government Act 2002 and the Local Government (Auckland Council) Act 2009.

Responsibilities of the Auditor

I am responsible for expressing an independent opinion on the information I am required to audit, and whether the Council has complied with the Other Requirements of schedule 10, and reporting that opinion to you. My responsibility arises under section 15 of the Public Audit Act 2001 and section 99 of the Local Government Act 2002.

Independence

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

In addition to this audit, which includes my report on the Other Requirements, I have carried out a range of other assurance and tax consultancy assignments. Other than the audit and the other assurance and tax consultancy assignments, and in exercising functions and powers under the Public Audit Act 2001 as the auditor of public entities, I have no relationship with or interests in Auckland Council or any of its subsidiaries.



Lyn Provost
Controller and Auditor-General
Wellington, New Zealand

Section 5: Other disclosures

Summary of waivers granted by NZX

For the purposes of NZX Listing Rule 10.4.5(f), Auckland Council (the council) discloses that NZX has granted it various waivers, being waivers related to:

- Listing Rule 5.1.2(j) (decision published by NZX on 26 August 2010)
- Listing Rule 5.2.3, 6.3.2 and 11.1.1 (decision published by NZX on 10 December 2012)
- Listing Rule 5.2.3 extension of the original waiver granted by NZX on 10 December 2012 (decision published by NZX on 18 December 2013)
- Listing Rule 5.2.3 (decision published by NZX on 11 March 2014).

Listing Rule 5.1.2(j)

Listing Rule 5.1.2(j) requires the directors of an issuer to provide NZX with an acknowledgement that they will use their best endeavours to ensure compliance by the issuer with the Listing Rules. NZX granted the council a waiver from Listing Rule 5.1.2(j) to allow two councillors of the council who have been approved by NZX, to provide the required acknowledgement rather than all of the councillors of the council. NZX considered the waiver appropriate given the difference in the governance framework and application of the principle of collective responsibility applying to the council.

Listing Rule 5.2.3

Listing Rule 5.2.3 requires a class of securities to be held by at least 500 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. In December 2010, NZX granted the Group a waiver from Listing Rule 5.2.3 to allow the Group to have fewer than 500 bondholders who are members of the public for a period of one year from the quotation date of its initial offer of new bonds (which are part of a series of bond offers under its bond programme). NZX considered the waiver appropriate given the waiver decision and its implications will be disclosed in the offer documentation and that debt securities are not subject to the same degree of trading activity as equity securities. This initial waiver was extended in December 2013 for a further year on the basis that it be disclosed in the Group's half-year and annual reports and NZX is notified of any material change to the spread of the bonds.

In March 2014, NZX granted the Group a further waiver from Listing Rule 5.2.3 in respect of an issue of new bonds under its bond programme. The basis for this waiver included that a similar waiver has been granted previously (being the December 2010 waiver) and that debt securities are not subject to the same degree of trading activity as equity securities.

Listing Rule 6.3.2

NZX granted waivers from Listing Rule 6.3.2 in respect of an offer of new bonds under the bond programme, to increase the period after which a notice sent to a bondholder (who is overseas and who has no address for service in New Zealand) is deemed to be received by that bondholder, from 24 hours to one business day after the time of posting. This one business day period is consistent with the provisions of the trust deed governing the bonds. NZX considered the waiver appropriate as it did not disadvantage bondholders.

Summary of waivers granted by NZX (continued)

Listing Rule 11.1.1

NZX granted the Group a waiver from Listing Rule 11.1.1, in respect of an offer of new bonds under the bond programme to enable the Group to:

- decline to accept or register a transfer of bonds if such transfer would result in the transferor holding or continuing to hold bonds with a principal amount of less than \$5,000 (which is the minimum holding for the bonds)
- restrict the transfer of bonds to minimum amounts of \$1,000 and multiples thereof.

The terms of the bonds define the minimum holding and the restrictions on the transfer of the bonds.

Spread of public bondholders at 4 August 2014

Holding range	Number of bondholders	Value held	Percentage of bonds held
2,000 to 4,999	1	\$3,000	-
5,000 to 9,999	338	\$1,906,000	0.17
10,000 to 49,999	2,467	\$51,551,700	4.60
50,000 to 99,999	594	\$34,415,500	3.07
100,000 to 499,999	449	\$77,360,500	6.90
500,000 to 999,999	41	\$25,530,000	2.28
1,000,000 +	65	\$930,025,300	82.98
Total	3,955	\$1,120,792,000	100.00

Other exchange listings

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

- Swiss Exchange
- Singapore Stock Exchange.

One of these exchanges' requirements is to provide a summary of main differences between International Financial Reporting Standards (IFRS) and the New Zealand equivalent of International Financial Reporting Standards (NZ IFRS). The key differences are highlighted on the following pages.

Main differences between IFRS and NZ IFRS for PBE

New Zealand Equivalents to International Financial Reporting Standards as applicable to public benefit entities (NZ IFRS PBE) are based on International Financial Reporting Standards (IFRS). NZ IFRS PBE includes certain modifications and exemptions from the requirements of IFRS.

The New Zealand Accounting Standards Framework defines public benefit entities (PBEs) as reporting entities 'whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders'. Many public sector entities are classified as PBEs. The Group is classified as a public sector PBE for financial reporting purposes.

Therefore, the financial statements of the Group have been prepared in accordance with NZ IFRS PBE. As the Group has applied the modifications and exemptions in NZ IFRS PBE, it is not able to state compliance with IFRS as promulgated by the International Accounting Standards Board (IASB).

As a public sector PBE, the Group will have to transition to the public sector PBE Standards (PS PBE Standards) from 1 July 2014. The PS PBE Standards are mainly based on International Public Sector Accounting Standards (IPSAS). The Group will prepare its first financial statements in accordance with PS PBE Standards for the year ending 30 June 2015. The Group is in the process of assessing the implications of the transition.

Due to the change in the Accounting Standards Framework for PBEs, the New Zealand standard setting body, the External Reporting Board (XRB), has effectively frozen the financial reporting requirements for PBEs. Accordingly, the suite of NZ IFRS PBE does not include any amendments to IFRS and new IFRSs issued subsequent to March 2011. Therefore, the Group has not adopted IFRSs and amendments to IFRSs effective for entities reporting in accordance with IFRS for the annual period to 30 June 2014, including *IFRS 10 Consolidated Financial Statements*, *IFRS 11 Joint Arrangements*, *IFRS 12 Disclosure of Interests in Other Entities* and consequential amendments to *IAS 28 Investments in Associates and Joint Ventures* and *IAS 27 Consolidated and Separate Financial Statements*. In addition, the Group has not adopted *IAS 19 (amended 2011) Employee Benefits* and *IFRS 13 Fair Value Measurement*.

Set out below are the key differences between IFRS and NZ IFRS PBE relevant to the Group, together with a high level indication of the impact of those differences.

IFRS 3 Business Combinations

NZ IFRS 3 (PBE) Business Combinations (NZ IFRS 3 (PBE)) contains a scope exemption for business combinations arising from local authority reorganisations.

The Group was formed on 1 November 2010 as a result of the amalgamation of eight predecessor Auckland local authorities. Without the scope exemption, the dissolution of the predecessor local authorities into the Group would have been accounted for as a business combination applying the acquisition method. Under the acquisition method, the 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.

Under the exemption, all assets and liabilities of the predecessor local authorities were recognised by the Group using the predecessor value 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.

Main differences between IFRS and NZ IFRS for PBE (continued)

IFRS 3 Business Combinations (continued)

The impact of the above accounting treatment of the 2010 local authority reorganisation is that the carrying values 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 was accounted for as a business combination under IFRS 3.

IAS 16 Property, Plant and Equipment

Under *NZ IAS 16 (PBE) Property, Plant and Equipment* (NZ IAS 16 (PBE)), PBEs are permitted to account for revaluation increases and decreases on an asset class basis rather than on an asset by asset basis. 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. This is contrary to IFRS that 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.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

PBEs are not permitted to apply the recognition and measurement requirements of IAS 20. The Group formulated its accounting policy for recognition and measurement of grants based on *IPSAS 23 Revenue from Non-Exchange Transactions*.

The Group recognises grant revenue in relation to grants received except to the extent that a liability is recognised in respect of the same grant inflow. A liability is recognised when a condition is attached to the grant that requires the grant to be returned unless it is consumed in the specified way. When the conditions are satisfied, the liability is reduced and revenue is recognised.

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. IAS 20, in the case of grants related to assets, results in setting up the grant as deferred income or deducting it from the carrying amount of the asset.

Compared to IAS 20, the Group's accounting policy may lead to earlier recognition of grant revenue; and may also result in differences in asset values in relation to grants related to assets.

IAS 23 Borrowing Costs

NZ IAS 23 (PBE) Borrowing Costs (NZ IAS 23 (PBE)) permits PBEs to either capitalise or expense borrowing costs incurred in relation to qualifying assets. A qualifying asset is defined by IAS 23 'as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale'. IAS 23 requires capitalisation of borrowing costs incurred in relation to a qualifying asset.

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.

This difference between IAS 23 and NZ IAS 23 (PBE) 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 are incurred.

Main differences between IFRS and NZ IFRS for PBE (continued)

IAS 36 Impairment of Assets

NZ IAS 36 (PBE) Impairment of Assets (NZ IAS 36 (PBE)) defines the value in use for an asset when the future economic benefits of the asset are not primarily dependent on the asset's ability to generate cash. This means that assets which might otherwise be impaired under IFRS due to limited generation of cash flows might not be impaired under NZ IAS 36 (PBE).

The Group's asset values may, therefore, be higher than under IFRS because some impairments may not be required under NZ IAS 36 (PBE) when impairment would be recognised under IAS 36.

Other differences between IFRS and NZ IFRS PBE

The following differences between NZ IFRS and NZ IFRS PBE are not significant to the Group.

IAS 2 Inventories: NZ IAS 2 (PBE) Inventories requires measurement of inventories held for distribution whose economic benefits are not directly related to their ability to generate cash flows at cost adjusted for any loss in service potential. The Group does not hold significant balances of inventories held for distribution.

IAS 40 Investment Property: NZ IAS 40 (PBE) Investment Property contains additional guidance that clarifies that property held to meet service delivery objectives rather than to earn rental or capital appreciation does not meet the definition of investment property and is accounted for as property, plant and equipment. The difference is a clarification and, therefore, does not have a significant impact on the Group's financial performance and financial position.

The following standards are not applicable to PBEs and therefore the Group has not adopted these.

IFRS 8 Operating segments: disclosure only. There is no standard in the suite of NZ IFRS PBE Standards that requires disclosures of segment information. As a result the Group does not present segment information.

IFRS 10 Consolidated Financial Statements (IFRS 10) builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. IFRS 10 provides additional guidance to assist in the determination of control where this is difficult to assess. The Group does not believe that the application of IFRS 10 would result in more entities being consolidated than under NZ IAS 27 (PBE) *Consolidated and Separate Financial Statements* and Standards Interpretation Committee - 12 (PBE) *Consolidation – Special Purpose Entities*.

IFRS 11 Joint Arrangements (IFRS 11) focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. The Group has no material joint ventures and, therefore, there is no significant impact on its financial position or financial performance.

IFRS 12 Disclosures of Interests in Other Entities (IFRS 12) includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off-balance sheet vehicles. It does not have an impact on the financial performance and financial position of the Group.

Main differences between IFRS and NZ IFRS for PBE (continued)

Other differences between IFRS and NZ IFRS PBE (continued)

IFRS 13 Fair Value Measurement (IFRS 13) requires enhanced disclosures of fair value measurement. In addition, it introduces a new definition of fair value. It 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. It is possible that the application of IFRS 13 may result in differences in the measurement of certain financial assets and liabilities compared to *IAS 39 Financial Instruments: Recognition and Measurement*.

IAS 19 Employee Benefits (IAS 19): the revised employee benefit standard introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. The standard also requires net interest expense/income to be calculated as the product of the net defined benefit liability/asset and the discount rate as determined at the beginning of the year. The Group has no defined benefit obligations and therefore there is no impact on its financial performance and financial position.

Amended standards - Offsetting disclosures – IFRS 7 amendments: the amendments require more extensive disclosures about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The amendments do not change the current offsetting model in *IAS 32 Financial Instruments: Presentation* and therefore it does not have an impact on the financial performance and financial position of the Group.

Appendices

Glossary

activity	the goods or services the council provides.
advisory panels	identify and communicate to the council the interests and preferences relating to the specific portfolio of the panel. There are currently 10 panels: • Business Leadership Group • CBD Advisory Board • Disability Strategic Advisory Panel • Digital Leadership Forum • Ethnic Peoples Advisory Panel • Heritage Advisory Panel • Pacific People's Advisory Panel • Rural Advisory Panel • Seniors Advisory Panel • Youth Advisory Panel
amortisation	the systematic allocation of the value of an intangible asset over its useful life.
annual plan	the plan that sets out what 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 council's yearly performance and reports against the relevant annual plan.
asset	an item of value, usually of a physical nature, that has a useful life of more than 12 months and has future economic benefits over a period of time. Infrastructural assets provide the basic facilities, services and installations needed for a community or society to function, such as stormwater drainage pipes. Non-infrastructural assets are the organisation's other assets that provide either administrative or operational functions, such as computer software.
associates	entities that the council or Group owns a share of but does not control. Our share of the associates' surplus/deficit and net assets is recorded in the Group financial statements. The council's associates are Auckland International Airport Ltd (22 per cent), Auckland Film Studios Ltd (44 per cent) and United Containers Ltd (27 per cent).
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 ultimate parent, the council, and its subsidiaries, associates and jointly-controlled entities.

Glossary (continued)

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 the world's most liveable city.
budget	the itemised estimate of expected income and expenditure for a given period.
capital expenditure (capex)	spending on buying or building new assets and renewing current assets.
capitalised interest	the borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are capital projects that span more than one financial year and require funding of more than \$2million, added to the cost of those assets, until such time as the assets are substantially ready for their intended use.
City Rail Link (CRL)	a proposed rail project in central Auckland designed to connect the Britomart Transport Centre with the Western Line at Mount Eden Railway Station.
COMET Auckland	One of Auckland Council's CCOs. Formerly the City of Manukau Education Trust and now a region-wide charitable trust.
community outcomes	the things the community thinks are important for its current or future social, economic, environmental or cultural well-being. These outcomes are used to help set priorities in the council's 10-year plan.
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 council-controlled organisations.
deferred capital projects	capital projects originally planned in previous years, but which have been delayed.
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 to help fund new infrastructure required by growth, as set out in the Local Government Act 2002. Development contributions include financial contributions.

Glossary (continued)

fair value	essentially reflects the market value of assets or liabilities.
governing body	the governing body is made up of the mayor and 20 councillors. 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 council provides.
gross operating expenditure	total expenditure without deductions of depreciation and finance costs.
Independent Māori Statutory Board (IMSB)	an independent board established by legislation to promote and advise Auckland Council on cultural, economic, environmental and social issues of significance for mana whenua groups and mataawaka of Tāmaki Makaurau. It also ensures that the council acts in accordance with statutory provisions referring to the Treaty of Waitangi.
joint ventures	contractual arrangements whereby council or Group undertakes an economic activity that is subject to joint control or an interest in an entity with an external party. The council's joint ventures are Waste Disposal Services (50 per cent) which is accounted for as a jointly controlled operation; Araparera Forestry (70 per cent) which is accounted for as a jointly controlled asset; North Tugz Ltd (50 per cent) and Seafuels Ltd (50 per cent) in which the shareholder agreements do not provide control.
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, 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. Local boards represent their local communities and make decisions on local issues, activities and facilities.
local board agreement	an annual agreement between the governing body and each local board outlining its priorities and preferences in its local board plan for the year.
local board plan	a plan that reflects the priorities and preferences of the communities within the local board area in respect of the level and nature of local activities to be provided by the council over the following three years.
Local Government Act 2002 (LGA 2002)	the act that defines the powers and responsibilities of territorial local authorities such as the council.

Glossary (continued)

Local Government (Financial Reporting and Prudence) Regulations 2014	the act 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 assess and apply their rating policy.
Local Government Commission	an independent statutory body whose main role is to make decisions on the structure and representation requirements of local government in New Zealand.
Local Government Funding Agency	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 plan. This sets out the council's vision, activities, projects, policies, and budgets for a 10-year period
operating expenditure (opex)	expenditure resulting from normal business operations.
performance measures	methods for gauging progress towards the meeting of objectives. Measures usually relate to agreed levels of performance and types of services provided.
PM ₁₀ particulate matter	a collective term used to describe very small solid or liquid particles in the air, such as dust, smoke or fog. A PM ₁₀ particle is less than 10 microns in diameter and is linked to harmful health effects.
PM _{2.5} particulate matter	particulate matter (PM) is a collective term used to describe very small solid or liquid particles in the air, such as dust, smoke or fog. A PM _{2.5} particle is less than 2.5 microns in diameter and is linked to harmful health effects
Proposed Auckland Unitary Plan (PAUP)	The Unitary Plan has to go through a hearing process before it is adopted by the council
rates	a charge against the property to help fund services and assets the council provides.
The Southern Initiative (TSI)	a plan that identifies stable housing, job growth, skills development and environmental enhancement in south Auckland.
spatial plan	known as the Auckland Spatial Plan, or simply as the Auckland Plan
subsidiaries	entities over which the council and gGroup has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Glossary (continued)

substantive CCO	a CCO that is either responsible for the delivery of a significant service or activity on behalf of Auckland Council, or that owns or manages assets with a value of more than \$10 million.
Unitary Plan	replaces the existing Regional Policy Statement and 13 district and regional plans
vested assets	infrastructural assets transferred to the council by developers.
ward	an administrative and electoral area of the council. There are 13 in the Auckland Council's area.

Acronyms

ACIL	Auckland Council Investments Ltd
ACPL	Auckland Council Properties Ltd
AIAL	Auckland International Airport Ltd
AMETI	Auckland Manukau Eastern Transport Initiative
ATEED	Auckland Tourism Events and Economic Development Ltd
CCO	council-controlled organisation
HPO	Housing Project Office
IMSB	Independent Māori Statutory Board
LTP	Long-term Plan
NZTA	New Zealand Transport Agency
RFA	Regional Facilities Auckland
SH	State highway
SHA	Special Housing Area
Watercare	Watercare Services Ltd
Waterfront Auckland	Auckland Waterfront Development Agency Ltd



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

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