

Results for announcement to the market		
Name of issuer	Auckland Council	
Reporting Period	12 months to 30 June 2019	
Previous Reporting Period	12 months to 30 June 2018	
	Amount (000s)	Percentage change
Revenue from continuing operations (excluding other gains/(losses))	\$4,878,975 ¹	7%
Total revenue	\$4,878,975 ¹	7%
Net profit/(loss) from continuing operations	\$179,767 ²	-73%
Total net profit/(loss)	\$179,767 ²	-73%
A brief explanation of any of the figures above necessary to enable the figures to be understood	¹ Revenue from continuing operations and total revenue excluding other gains ² Net profit/(loss) from continuing operations and net profit/(loss) above are shown after tax before gains and losses. In the Auckland Council financial statements these are referred to as surplus/(deficit), rather than profit/(loss), as required by the Public Benefit Accounting Standards. The Auckland Council Group (the group) experienced growth in its revenue of \$336 million to \$4.9 billion during the year ended 30 June 2019. There was a corresponding increase in operating costs of \$204 million to \$4.1 billion. These reflect the city's unprecedented growth which has increased the demand for services and investment in infrastructure. The revenue increase of \$336 million included New Zealand Transport Agency subsidies of \$78 million and Regional Fuel Tax of \$156 million. In addition, increases in public transport patronage and consenting volumes contributed to the rise in fees and user charges of \$72 million to \$1,333 million. The two new targeted rates for water quality and the natural environment contributed \$70 million of revenue. These fund numerous programmes such as kauri die-back and sewer and stormwater network improvements. The \$204 million increase in operating costs includes increases in employee benefits of \$45 million, weathertightness claims expenses of \$49 million and maintenance costs of \$25 million. The large capital investment programme also drove an increase in depreciation costs of \$57 million. Overall there has been a \$132 million increase in operating surplus before gains and losses to \$791 million. Strong cash flows from operations have allowed the group to limit the reliance on borrowings to fund capital investment. Net	

	debt increased by \$445 million during the year to \$8.7 billion. Total assets increased by \$1.4 billion to \$52.9 billion. During the year the council reported a mark to market loss of \$654 million from our interest rate hedging contracts. This is a result of the significant fall in interest rates in New Zealand. The surplus after tax for the group was \$180 million.
Authority for this announcement	
Name of person authorised to make this announcement	Matthew Walker, Group Chief Financial Officer
Contact person for this announcement	Francis Caetano, Group Financial Controller
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Date of release through MAP	29 August 2019

Unaudited financial statements which are in the process of being audited accompany this announcement.

Auckland Council Group

Unaudited statement of comprehensive revenue and expenditure

For the year ended 30 June 2019

\$million	Actual 2019	Actual 2018
Revenue		
Rates	1,790	1,707
Fees and user charges	1,333	1,261
Grants and subsidies	612	497
Development and financial contributions	178	182
Other revenue	464	287
Vested assets	486	572
Finance revenue measured using the effective interest method	16	37
Total revenue excluding other gains	4,879	4,543
Expenditure		
Employee benefits	911	866
Depreciation and amortisation	922	865
Grants, contributions and sponsorship	144	133
Other operating expenses	1,633	1,548
Finance costs	478	472
Total expenditure excluding other losses	4,088	3,884
Operating surplus/(deficit) before gains and losses	791	659
Net other gains/(losses)	(646)	(112)
Share of surplus in associates and joint ventures	93	147
Surplus/(deficit) before income tax	238	694
Income tax expense	58	34
Surplus/(deficit) after income tax	180	660
Other comprehensive revenue/(expenditure)		
Net gain on revaluation of property, plant and equipment	41	2,362
Tax on revaluation of property, plant and equipment	(11)	(276)
Movement in cash flow hedge reserve	(4)	5
Share of associates and joint ventures reserves	7	264
Gains/(losses) from investments in equity instruments	-	7
Deferred tax written back to revaluation reserve on asset transfer	26	-
Total other comprehensive revenue	59	2,362
Total comprehensive revenue/ (expenditure)	239	3,022

Auckland Council Group

Unaudited statement of financial position

As at 30 June 2019

\$million	Actual 2019	Actual 2018
Assets		
Current assets		
Cash and cash equivalents	294	618
Receivables and prepayments	475	379
Derivative financial instruments	3	7
Other financial assets	56	151
Inventories	48	41
Non-current assets held-for-sale	59	35
Total current assets	935	1,231
Non-current assets		
Receivables and prepayments	41	10
Derivative financial instruments	441	282
Other financial assets	131	121
Property, plant and equipment	48,196	46,730
Intangible assets	640	563
Investment property	629	761
Investment in associates and joint ventures	1,850	1,751
Other non-current assets	11	13
Total non-current assets	51,938	50,231
Total assets	52,873	51,462
Liabilities		
Current liabilities		
Bank overdraft	3	8
Payables and accruals	869	688
Employee entitlements	106	100
Borrowings	1,172	905
Derivative financial instruments	9	5
Provisions	171	127
Total current liabilities	2,330	1,833
Non-current liabilities		
Payables and accruals	106	104
Employee entitlements	5	5
Borrowings	7,786	7,927
Derivative financial instruments	1,839	963
Provisions	299	405
Deferred tax liabilities	1,466	1,423
Total non-current liabilities	11,501	10,827
Total liabilities	13,831	12,660
Net assets	39,042	38,802
Equity		
Contributed equity	26,732	26,732
Accumulated funds	1,788	1,667
Reserves	10,522	10,403
Total equity	39,042	38,802

Auckland Council Group

Unaudited statement of changes in equity

For the year ended 30 June 2019

\$million	Contributed equity	Accumulated funds	Reserves	Total equity
Balance as at 1 July 2017	26,728	951	8,097	35,776
Surplus after income tax	-	660	-	660
Other comprehensive revenue	-	-	2,362	2,362
Total comprehensive revenue	-	660	2,362	3,022
Found assets	4	-	-	4
Transfers (from)/to reserves	-	56	(56)	-
Balance as at 30 June 2018	26,732	1,667	10,403	38,802
Balance as at 1 July 2018	26,732	1,667	10,403	38,802
Adjustment on adoption of PBE IFRS 9	-	5	-	5
Adjusted balance as at 1 July 2018	26,732	1,672	10,403	38,807
Surplus after income tax excluding PBE IFRS 9 adjustment above	-	175	-	175
Other comprehensive revenue	-	-	60	60
Total comprehensive revenue excluding PBE IFRS 9 adjustment above	-	175	60	235
Transfers (from)/to reserves	-	(59)	59	-
Balance as at 30 June 2019	26,732	1,788	10,522	39,042

Auckland Council Group

Unaudited statement of cash flows

For the year ended 30 June 2019

\$million	Actual 2019	Actual 2018
Cash flows from operating activities		
Receipts from rates, grants and other services	4,328	3,972
Interest received	17	37
Dividends received	65	68
Payments to suppliers and employees	(2,682)	(2,523)
Income tax refund/(paid)	(14)	4
Interest paid	(466)	(457)
Net cash inflow/(outflow) from operating activities	1,248	1,101
Cash flows from investing activities		
Sale of property, plant and equipment, investment property and intangible assets	168	257
Purchase of property, plant and equipment, investment property and intangible assets	(1,899)	(1,665)
Acquisition of other financial assets	(18)	(132)
Proceeds from sale of other financial assets	132	284
Receipts from the Crown	-	218
Investment in joint ventures	(65)	(93)
Advances (to)/from external parties	(1)	(3)
Net cash outflow from investing activities	(1,683)	(1,134)
Cash flows from financing activities		
Proceeds from borrowings	2,432	3,947
Repayment of borrowings	(2,282)	(3,640)
Proceeds from derivative financial instruments	35	48
Payments for derivative financial instruments	(69)	(43)
Net cash inflow from financing activities	116	312
Net increase/(decrease) in cash and cash equivalents and bank overdraft	(319)	279
Opening cash and cash equivalents and bank overdraft	610	331
Closing cash and cash equivalents and bank overdraft	291	610

Auckland Council Group

Unaudited statement of significant accounting policies

For the year ended 30 June 2019

Basis of reporting

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

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

Auckland Council is an FMC Reporting Entity under the Financial Markets Conduct Act 2013 (FMCA 2013).

Auckland Council's principal address is 135 Albert Street, Auckland Central, New Zealand.

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

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

Basis of preparation

The financial statements have been prepared:

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

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

Auckland Council Group

Unaudited statement of significant accounting policies contd

For the year ended 30 June 2019

Significant judgements and estimates

The preparation of the financial statements requires judgements, estimates and assumptions. Application is based on future expectations as well as historical experience and other factors, as appropriate to the particular circumstances. Judgements and estimates which are considered material to understanding the performance of the group are found in the following accounting policies:

- Property, plant and equipment
- Derivative financial instruments
- Provisions and financial guarantees

Basis of consolidation

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

Implementation of new and amended standards

Early adoption of PBE IFRS 9 Financial instruments

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

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

Classification and measurement of financial instruments

The group classifies its financial instruments in the following categories:

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

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

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

Auckland Council Group

Unaudited statement of significant accounting policies contd For the year ended 30 June 2019

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

Financial assets	Original classification under PBE IPSAS 29	New classification under PBE IFRS 9	Carrying amount (\$million)	
			Original measurement under PBE IPSAS 29	New measurement under PBE IFRS 9
Cash and cash equivalents	Amortised cost	Amortised cost	618	618
Trade and rates receivables	Amortised cost	Amortised cost	260	260
Related party receivables	Amortised cost	Amortised cost	-	-
Accrued income	Amortised cost	Amortised cost	96	96
Other receivables	Amortised cost	Amortised cost	6	6
Loans to related party - Watercare	Amortised cost	FVTSD	-	-
Loans to related parties – Others	Amortised cost	Amortised cost	4	4
Community loans	Amortised cost	Amortised cost	1	1
Retrofit Your Home receivables	Amortised cost	Amortised cost	32	32
Borrower notes	Amortised cost	FVTSD	33	38
Short term deposits	Amortised cost	Amortised cost	130	130
Investment in unlisted shares	FVTOCRE	FVTSD	8	8
Investment in listed equity shares	FVTOCRE	FVTOCRE	43	43
Credit support annex	Amortised cost	Amortised cost	10	10
Investment in managed funds	FVTOCRE	FVTSD	11	11
Derivative assets	FVTSD	FVTSD	289	289

The requirements of PBE IPSAS 29 for classification and measurement of financial liabilities were carried forward in PBE IFRS 9, so the group's accounting policy with respect to financial liabilities is unchanged. There was no material impact arising as a result of remeasurement of financial assets that have been classified differently under PBE IFRS 9. The group has elected not to restate the comparatives to comply with PBE IFRS 9.

Auckland Council Group

Unaudited statement of significant accounting policies contd For the year ended 30 June 2019

The group has assessed which business model apply to the financial assets as at 1 July 2018 and has classified the financial instruments into the appropriate categories in accordance with PBE IFRS 9. The effects are as follows:

Reconciliation of statement of financial position balances from PBE IPSAS 29 to PBE IFRS 9 at 1 July 2018

\$million Measurement category	(a) PBE IPSAS 29 carrying amount 30 June 2018	(b) Reclassification	(c) Remeasurements and effect on Accumulated funds on 1 July 2018	(d) = (a)+(b)+(c) PBE IFRS 9 carrying amount at 1 July 2018
Fair value through surplus or deficit	289	-	-	289
<i>Reclassified from fair value through other comprehensive revenue and expenditure</i>				
Investment in unlisted shares	-	8	-	8
<i>Reclassified from amortised cost</i>				
–Investment in managed funds	-	11	-	11
Borrower notes	-	33	5	38
Total change to fair value through surplus or deficit	289	52	5	346
Fair value through other comprehensive revenue and expenditure	62	-	-	62
Investment in unlisted shares	-	(8)	-	(8)
Investment in managed funds	-	(11)	-	(11)
Total change to fair value through other comprehensive revenue and expenditure	62	(19)	-	43
Amortised cost	1,190	-	-	1,190
Borrower notes	-	(33)	-	(33)
Total change to amortised cost	1,190	(33)	-	1,157
Total financial asset balances, reclassifications and remeasurements at 1 July 2018	1,541	-	5	1,546

New impairment model

PBE IFRS 9 prescribes an 'expected credit loss' (ECL) model instead of a previous incurred loss model, so it is no longer necessary for a trigger event to have occurred before recognising credit losses. NZ IFRS 9 requires the group to base the measurement of expected credit losses on forward-looking information, as well as current and historic information. The group has applied the simplified approach to all receivables, which requires the recognition of lifetime expected credit losses at all times. The cumulative impact of the change has been adjusted through opening accumulated funds, as shown in the statement of changes in equity.

Auckland Council Group

Unaudited statement of significant accounting policies contd

For the year ended 30 June 2019

For loans to related parties and financial guarantees, ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL). In the current period as the financial effects are not material the balances are not adjusted.

Hedge accounting

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

Property, plant and equipment

The property, plant and equipment of the group is classified into three categories.

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

Initial recognition and subsequent measurement

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

Auckland Council Group

Unaudited statement of significant accounting policies contd For the year ended 30 June 2019

Useful lives

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

Asset class	Estimated useful life (years)	Asset class	Estimated useful life (years)
Infrastructure		Operational (continued)	
Land and road formation	Indefinite	Marina structures	1 to 100
Roads	8 to 100	Rolling stock	3 to 35
Water and wastewater	3 to 200	Wharves	4 to 100
Machinery	3 to 200	Works of art	Indefinite
Storm water	10 to 200	Other operational assets	1 to 100
Other infrastructure	10 to 120	Restricted	
Operational		Parks and reserves	Indefinite
Land	Indefinite	Buildings	5 to 100
Buildings	1 to 100	Improvements	3 to 100
Train stations	6 to 60	Specified and cultural	Indefinite
Bus stations and shelters	10 to 40	heritage assets	

Disposals

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

Impairment

Property, plant and equipment that is measured at fair value, is not required to be tested for impairment. All other property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in surplus or deficit for the amount by which the carrying amount of property, plant and equipment exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

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

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

Derivative financial instruments

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

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Derivative assets and derivative liabilities are classified as current when the maturity is 12 months or less from balance date or as non-current when the maturity is more than 12 months from balance date.

Auckland Council Group

Unaudited statement of significant accounting policies contd For the year ended 30 June 2019

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised directly in other comprehensive revenue and expenditure. The gain or loss relating to the ineffective portion is recognised immediately in surplus or deficit. On derecognition, amounts accumulated in cash flow hedge reserve are transferred to surplus or deficit.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the cash flow hedge reserve at that time remains in equity and is recognised when the forecast transaction occurs.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss in cash flow hedge reserve is recognised immediately in the surplus or deficit. When a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognised in other comprehensive revenue and expenditure are transferred to the initial cost of the carrying amount of the non-financial asset or liability.

Provisions and financial guarantees

Provisions are recognised in the statement of financial position where the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be estimated reliably.

Provisions are measured at the present value of the expected future cash outflows required to settle the obligation. The increase in the provision due to the passage of time is recognised as finance cost in surplus or deficit.

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

- the amount determined in accordance with the expected credit loss model under IFRS 9 Financial Instruments and
- the amount initially recognised less, where appropriate, the cumulative amount of amortisation recognised in accordance with the principles of PBE IPSAS 9.

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

Auckland Council Group

Unaudited statement of significant accounting policies contd

For the year ended 30 June 2019

Subsequent Event

City Rail Link Limited (CRL) alliance agreement

On 19 July 2019, CRL (Auckland Council's joint venture with the Crown) signed an alliance agreement with Link Alliance for the next stage of the City Rail Link. Link Alliance will construct the two new inner-city underground stations (Aotea and Karangahape), upgrade the existing Mt Eden station and complete tunnel construction just south of Wyndham Street to the North Auckland Line at Mt Eden. This contract brings the total value of the project to over \$4 billion. Partners to the alliance are three construction companies and three design companies, being Vinci Construction Grands Projects SAS, Downer NZ Limited, Soletanche Bachy International NZ Limited, WSP Opus (NZ) Limited, AECOM New Zealand Limited and Tonkin+Taylor Limited.

The above transaction had no financial impact on the current year group results or its financial position at 30 June 2019.