Auckland Council Group Interim Report

31 December 2014

Auckland Council
Te Kaunihera o Tāmaki Makaurau

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Contents

Message from the mayor	2
Message from the chief executive	3
Financial commentary	4
Statements of comprehensive revenue and expenditure	5
Statements of changes in equity	6
Statements of financial position	7
Statements of cash flows	8
Notes to the financial statements	9
Independent reviewer's report	14
Summary of waivers granted by NZX Limited	17
Other exchange listings	17
Main differences between IFRS and PBE Accounting Standards	18

Message from the mayor

Auckland is on the verge of seeing great results on its path to becoming a major international city.

There is a real sense of pride growing around our region and the latest interim financial report from the Auckland Council Group (the Group) shows the progress we continue to make towards building a vibrant city and major economy.

Over the last six months, the Group has invested $751 million into Auckland, including into areas which Aucklanders have said are the most important priorities for our region. In improving transport with $107 million on new electric trains, in better local communities with $22 million on new local libraries and recreational facilities and by tackling housing supply.

We continue to unite as a region with the landmark Ngā Mana Whenua o Tāmaki Makaurau Collective Redress Deed passed into law and the establishment of the Tūpuna Maunga o Tāmaki Makaurau Authority (Maunga Authority) to co-govern with Auckland Council 14 Tūpuna Maunga across Auckland.

This year you'll see new houses and apartments built as we continue to cut the red tape on building consents. We will be tackling a shortage of emergency houses for our Aucklanders most in need, there will also be more cycling projects and walkways connecting local communities, and more electric trains to the South and West, especially now that electrification of our urban rail network has been completed in the last six months.

And there is more to be done.

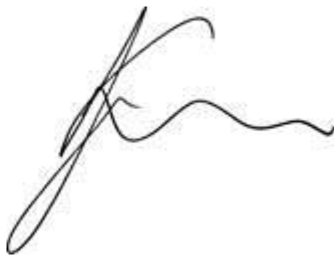
We are now about to make some of the biggest decisions on Auckland's future and so we are currently asking all Aucklanders to tell us what they think we should invest in and prioritise through our 10 year budget.

We have provided some clear choices for Aucklanders to tell us if they agree with how we set rates, in what ways they may want to pay to fix Auckland's transport and if they agree with council taking a more active role in the development of intensive housing through a new development agency.

We remain committed to keeping rates affordable and our finances are in good shape. Our AA Standard and Poor's credit rating was reaffirmed in the last six months, we operate well within our means using debt wisely and we monitor our borrowing levels relative to our income and the value of our assets. We also achieve significant cost and efficiency savings, a proposed $2.3 billion over the next 10 years.

I encourage all Aucklanders to participate in our 10 year budget consultation and share their views, it's crucial for us to make the best decisions on our city's future.

I would also like to acknowledge the contribution of our elected representatives and the staff of the wider Auckland Council Group in all that has been achieved in the past six months.



Len Brown
Mayor of Auckland

Message from the chief executive

This half-year financial report highlights the Auckland Council Group's on-going commitment to investing in priority areas such as transport, housing, and local communities while balancing this progress with affordability.

Over the last six months, we have delivered on more public spaces and parks, sports fields, recreation facilities, libraries, and upgrades to town centres while providing better and more cost effective services to over 1.5 million Aucklanders every day.

Investment in big regional transport initiatives has continued with new electric trains bringing more frequent and reliable services and an 18 per cent increase in rail patronage for the 12 months to December 2014.

The first stage of the Auckland Manukau Eastern Transport Initiative (AMETI) was completed improving transport connections across the southeast and Aucklanders are now benefiting from new walk and cycle ways with more planned across the region.

In partnership with the Government we have exceeded the Auckland Housing Accord's first year targets for new sections and dwellings by 20 per cent.

Local communities have seen investment in new infrastructure and recreational facilities with new libraries opening in Ranui, Waiheke, Devonport, and Te Atatu, including the upgrade of the Devonport broad walk and the new Ōtāhuhu pool and recreation precinct.

And our investment in local areas will continue, with initiatives like the Kapaitiki Local Board's $5.7 million programme of improvements for the Birkenhead Town Centre in progress.

Alongside this there are a number of other notable achievements:

- The Tūpuna Maunga o Tāmaki Makaurau Authority (Maunga Authority) was established to co-govern with Auckland Council 14 tūpuna maunga across Auckland concluding a significant Treaty of Waitangi negotiation.
- The Downtown Framework was launched and planning has begun on 12 major programmes of work to create a world-class area that is able to compete globally to attract investment, tourism and jobs.
- A new Auckland Council Cadet Programme is now in place helping motivated job seekers to secure sustainable employment through paid work experience with development opportunities.

We do all this with a commitment to getting the most value for money for Auckland ratepayers.

In the last six months to December 2014, the value of our total assets has increased to $41.2 billion and there has been $751 million of capital investment across our region.

Within this period we have continued to maintain our AA Standard and Poor's credit rating. It remains one of the strongest ratings in New Zealand, better than virtually every other institution in the country and second only to the Government.

Finally, I would like to acknowledge our staff who work hard to make savings and provide sound and robust financial management while delivering on the projects and initiatives that matter to Aucklanders.

Stephen Town
Chief Executive
Auckland Council

Financial commentary

During the six months to 31 December 2014, Auckland Council Group (the Group) generated an operating surplus of $812 million, an increase of $37 million on the same period last year (restated).

From 1 July 2014, the Group has adopted the new accounting standards, the Public Benefit Entities (PBE) accounting standards, applicable only to the public sector. One of the key changes to the new standards is the requirement to classify all revenue transactions as either exchange or non-exchange. This has resulted in significant changes in the timing of revenue recognition for non-exchange transactions during a financial year. However, there is only minimal impact on the full year financial statements of the Group's net asset value at year end. Further details of the changes and the definition of exchange and non-exchange revenue are included in notes 1 and 2 of this report.

The adoption of the new accounting standards means that the rates revenue for the entire year is recognised at the start of the year. This has resulted in a restatement of the 31 December 2013 revenue, which increased from $1,702 million to $2,322 million. Where appropriate, other comparative information for 31 December 2013 has also been restated.

After the restatement of 31 December 2013's results, total revenue for the period ended 31 December 2014 has increased by 7.4% or $172 million. This is largely due to the Group receiving vested assets, principally roading assets. In addition, revenue from regulatory areas is up $16 million on last year as more consents and licenses have been issued due to increased building and business activities. Rates revenue has also increased by 4.8% due to the 2.5% average rates increase and growth in the rating base.

Total expenditure has increased by $135 million or 8.7%. Depreciation and amortisation were up 5.6% on last year as a result of the capitalisation of assets over the last 12 months. Group employee benefits increased by 9.4% due to providing services in-house previously outsourced, additional staff to support delivery of projects and activities, and a cost of living increase.

Net finance costs have increased in line with the additional debt taken on compared to the same period last year. This is in line with the Group's plan to debt fund new capital expenditure.

The Group's surplus after income tax for the period was $638 million, down $312 million on the same period last year (after restatement). This is largely due to the reduction in fair value of derivatives, resulting from falling interest rates. The Group continues to actively manage its interest rate exposure to provide certainty over the Group's interest costs in the medium term.

Total Group net assets increased by $659 million from 30 June 2014. The principal contributors include net investment in property, plant and equipment of $419 million, increase in receivables of $674 million (due to transition to the PBE Accounting Standards), decrease in fair value of derivatives of $192 million and an increase in net debt of $389 million.

During the last six months the Group has invested $751 million to expand and renew community and infrastructure assets. These were funded primarily by operating cash surpluses of $302 million and new debt. During the period the Group managed its debt portfolio prudently and in accordance with its annual plan by raising new debt and refinancing $482 million of maturing debt.

The Group continues its efforts to lower the cost of funding and manage its liquidity risks. The Group has successfully increased the average term of borrowings thereby spreading the re-financing risk over multiple years.

Statements of comprehensive revenue and expenditure

$million	Note	Unaudited 6 months to 31 Dec 14	Unaudited * 6 months to 31 Dec 13	Audited 12 months to 30 Jun 14
Revenue				
Rates		1,456	1,389	1,395
Fees and user charges		520	502	989
Grants and subsidies		185	204	410
Development and financial contributions		55	47	102
Other revenue		269	174	371
Finance revenue		9	6	16
Total revenue excluding gains	3	**2,494**	**2,322**	**3,283**
Expenditure				
Employee benefits		394	360	730
Depreciation and amortisation		378	358	737
Grants, contributions and sponsorship		94	87	122
Other operating expenses		605	561	1,172
Finance costs		211	181	372
Total expenditure excluding losses		**1,682**	**1,547**	**3,133**
Operating surplus before gains and losses		**812**	**775**	**150**
Net other gains/(losses)	4	(207)	171	483
Share of surplus in associates and joint ventures		22	21	53
Surplus before income tax		**627**	**967**	**686**
Income tax (benefit)/expense		(11)	17	10
Surplus after income tax		**638**	**950**	**676**
Surplus after income tax is attributable to:				
Ratepayers of Auckland		638	950	676
Minority Interests		-	-	-
Other comprehensive revenue/(expenditure)				
Net gains on revaluation of property, plant and equipment		-	-	1,481
Tax on revaluation of property, plant and equipment		-	-	(3)
Cash flow hedges		26	(6)	(6)
Tax on cash flow hedges		1	(1)	(1)
Share of associates' and joint ventures' reserves		(3)	1	168
Net unrealised gains/(losses) on revaluation of financial assets classified as available-for-sale		(3)	-	2
Total other comprehensive revenue/(expenditure)		**21**	**(6)**	**1,641**
Total comprehensive revenue		**659**	**944**	**2,317**
Total comprehensive revenue is attributable to:				
Ratepayers of Auckland		659	944	2,317
Minority Interests		-	-	-

* 31 December 2013 balances have been restated as a result of conversion to the new PBE Accounting Standards. Refer to notes 1 and 3 for further details.

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

Statements of changes in equity

Unaudited * $million	Contributed capital	Accumulated funds	Reserves	Total ratepayer equity	Minority interests	Total equity
Balance as at 1 July 2013	**26,734**	**(58)**	**2,152**	**28,828**	**-**	**28,828**
Surplus after tax	-	950	-	950	-	950
Other comprehensive expenditure	-	-	(6)	(6)	-	(6)
Total comprehensive revenue/(expenditure)	**-**	**950**	**(6)**	**944**	**-**	**944**
Prior period impairment of property, plant and equipment	-	(12)	12	**-**	-	**-**
Transfers to/(from) reserves	-	(30)	30	**-**	-	**-**
Balance as at 31 December 2013	**26,734**	**850**	**2,188**	**29,772**	**-**	**29,772**

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

* 31 December 2013 balances have been restated as a result of conversion to the new PBE Accounting Standards. Refer to notes 1 and 3 for further details.

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

Statements of financial position

$million	Note	Unaudited As at 31 Dec 14	Unaudited * As at 31 Dec 13	Audited As at 30 Jun 14
ASSETS				
Current assets				
Cash and cash equivalents (excluding bank overdraft)		461	342	206
Receivables and prepayments	3	928	890	259
Other financial assets		341	333	366
Derivative financial instruments	5	-	2	1
Inventories		17	18	21
Non-current assets held-for-sale		41	32	45
Total current assets		**1,788**	**1,617**	**898**
Non-current assets				
Receivables and prepayments	3	104	104	99
Other financial assets		111	92	103
Derivative financial instruments	5	48	178	94
Property, plant and equipment	6	37,325	34,507	36,906
Intangible assets		510	415	469
Biological assets		2	2	2
Investment property		467	433	457
Investment in associates and joint ventures	7	845	751	846
Total non-current assets		**39,412**	**36,482**	**38,976**
Total assets		**41,200**	**38,099**	**39,874**
LIABILITIES				
Current liabilities				
Bank overdraft		5	1	4
Employee entitlements		83	75	77
Payables and accruals		505	427	615
Borrowings		1,118	1,199	1,171
Derivative financial instruments	5	14	21	41
Tax payable		3	-	-
Provisions	10	64	71	84
Total current liabilities		**1,792**	**1,794**	**1,992**
Non-current liabilities				
Employee entitlements		5	6	5
Payables and accruals		30	31	31
Borrowings		5,866	4,938	5,170
Derivative financial instruments	5	408	162	236
Provisions	10	299	393	286
Deferred tax liabilities		996	1,003	1,009
Total non-current liabilities		**7,604**	**6,533**	**6,737**
Total liabilities		**9,396**	**8,327**	**8,729**
Net assets		**31,804**	**29,772**	**31,145**
EQUITY				
Contributed capital		26,734	26,734	26,734
Accumulated funds		1,230	850	586
Reserves		3,840	2,188	3,825
Total equity		**31,804**	**29,772**	**31,145**

* 31 December 2013 balances have been restated as a result of conversion to the new PBE Accounting Standards. Refer to notes 1 and 3 for further details.

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

Statements of cash flows

$million	Note	Unaudited 6 months to 31 Dec 14	Unaudited 6 months to 31 Dec 13	Audited 12 months to 30 Jun 14
Cash flows from operating activities				
Receipts from customers, rates, grants and other services		1,608	1,589	3,104
Interest received		9	5	15
Dividends received		29	24	130
Payments to suppliers and employees		(1,149)	(1,026)	(2,078)
Interest paid		(195)	(181)	(348)
Net cash inflow from operating activities	8	**302**	**411**	**823**
Cash flows from investing activities				
Sale of property, plant and equipment, investment property and intangible assets		10	5	17
Purchase of property, plant and equipment, investment property and intangible assets		(751)	(684)	(1,493)
Acquisition of other financial assets		(13)	1	(86)
Cash receipts from derivative transactions		43	-	-
Proceeds from sale of other financial assets		-	25	30
Advances to external parties		(4)	(4)	(8)
Net cash outflow from investing activities		**(715)**	**(657)**	**(1,540)**
Cash flows from financing activities				
Proceeds from borrowings		1,149	895	1,724
Repayment of borrowings*		(482)	(640)	(1,136)
Repayment of finance lease principal		-	(1)	(2)
Net cash inflow from financing activities		**667**	**254**	**586**
Net increase in cash and cash equivalents and bank overdraft		**254**	**8**	**(131)**
Opening cash and cash equivalents and bank overdraft		202	333	333
Closing cash and cash equivalents and bank overdraft		**456**	**341**	**202**

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

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

Notes to the financial statements (unaudited)

1 General information

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

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

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

Statement of compliance

These interim financial statements are for the six months ended 31 December 2014 and have been prepared for the Group only and are to be read in conjunction with the annual report for the year ended 30 June 2014. They are prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and they comply with PBE IAS 34 *Interim Financial Reporting*. The financial results for the six month period ended 31 December 2014 are unaudited however they have been subject to a review by the auditors, pursuant to the New Zealand Standard on Review Engagements 2410.

Transition to the PBE Accounting Standards

This is the first set of interim financial statements presented in accordance with the PBE Accounting Standards. The conversion from the New Zealand equivalent of International Financial Reporting Standards to the PBE Accounting Standards has resulted in changes to accounting policies, with changes to significant accounting policies detailed in note 2. Accordingly, adjustments and reclassifications were made to the statement of financial position as at 1 July 2013 and comparative statement as at 31 December 2013. Refer to note 3 for further details. No changes were made to the statement of financial position as at 30 June 2014.

2 Basis of preparation

Accounting policies

The accounting policies used to prepare these interim financial statements are consistent with those used at 30 June 2014 except for those instances where the transition to PBE Accounting Standards has required a change in accounting policy. The material changes arising from the transition are outlined below.

Accounting judgments, estimates and assumptions

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2014.

Changes to significant accounting policies resulting from introducing PBE Accounting Standards

Revenue

The PBE Accounting Standards require revenue to be identified/classified as exchange or non-exchange. Exchange transaction revenue arises when one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value in exchange.

Non-exchange transaction revenue arises from transactions without an apparent exchange of approximately equal value. Non-exchange revenue includes rates, grants and subsidies and fees and user charges that are partially funded by rates.

The only material change in accounting policy that has had a material effect on the revenue reported in these interim financial statements is the recognition of revenue received from rates. Refer to note 3 for details of this change. The change in recognition for the interim financial statements will not result in any change to the amount of rates revenue recognised in the annual financial statements.

Notes to the financial statements (unaudited)

2 Basis of preparation (continued)

Comparative information

Prior period balances have been restated to reflect the conversion to the PBE Accounting Standards. Refer to note 3 for further details.

3 Exchange and non-exchange transactions

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

Revenue

$million	6 months to 31 Dec 14	6 months to 31 Dec 13	12 months to 30 Jun 14
Revenue from non-exchange transactions			
Revenue from rates			
Rates	1,456	1,389	1,395
Revenue from transfers			
Provision of goods and services	81	81	149
Vested assets	132	71	161
Fines and infringements	18	19	38
Consents, licences and permits	78	62	119
Operating grants	121	113	235
Capital grants	64	91	175
Other transfer revenue	41	38	53
Total revenue from non-exchange transactions	**1,991**	**1,864**	**2,325**
Revenue from exchange transactions			
Water and w astew ater	205	203	407
Sales of goods and services	31	30	59
Port operations	106	105	216
Development and financial contributions	55	47	102
Finance revenue	9	6	16
Other exchange revenue	97	67	158
Total revenue from exchange transactions	**503**	**458**	**958**
Total revenue	**2,494**	**2,322**	**3,283**

Revenue is classified as exchange or non-exchange based on the funding of the underlying activity which generates the revenue, as a result revenue from the sale of goods and services and other income can be categorised as exchange or non-exchange based on the funding of the underlying activity which generates the revenue.

Receivables and prepayments

$million	As at 31 Dec 14	As at 31 Dec 13	As at 30 Jun 14
Current receivables and prepayments			
Recoverables from non-exchange transactions	764	751	121
Receivables from exchange transactions	120	104	112
Prepayments	44	35	26
Total current receivables and prepayments	**928**	**890**	**259**
Non-current receivables and prepayments			
Recoverables from non-exchange transactions	55	47	51
Receivables from exchange transactions	18	19	17
Prepayments	31	38	31
Total non-current receivables and prepayments	**104**	**104**	**99**

3 Exchange and non-exchange transactions (continued)

Transition to PBE Accounting Standards

As a result of the transition to PBE Accounting Standards the timing of the recognition of the Group's rates revenue has changed. Under PBE Accounting Standards the majority of the Group's rates revenue is recognised at the time of the issuance of ratings notices as opposed to being recognised progressively throughout the year under NZ IFRS. The impact of this change is that the Group's rates revenue for the six months ended 31 December 2013 has been restated from $775 million to $1,389 million, receivables and prepayments as at 31 December 2013 have been restated from $346 million to $994 million. This restatement includes a reclassification of $34 million from receivables and prepayments to payables and accruals to achieve consistency with the presentation in the current period. This has resulted in restated net assets as at 31 December 2013 being $614 million higher than those previously reported under NZ IFRS. The change has no impact on the Group's net assets as at 30 June 2014.

4 Net other gains/(losses)

$million	6 months to 31 Dec 14	6 months to 31 Dec 13	12 months to 30 Jun 14
Reversal of previously recognised impairment	-	-	2
Net increase/(decrease) in fair value of investment property	(1)	7	10
Net increase/(decrease) in financial assets/liabilities held at fair value through surplus or deficit *	(195)	179	94
Net loss on disposal of property, plant and equipment and intangible assets	(11)	(12)	(34)
Net loss on revaluation of property, plant and equipment	-	(2)	-
Impairment of investment in associates and joint ventures	-	(1)	(1)
Net gain on revaluation of property, plant and equipment	-	-	412
Total net other gains/(losses)	**(207)**	**171**	**483**

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

5 Derivative financial instruments

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

	Notional			Fair Value		
$million	As at 31 Dec 14	As at 31 Dec 13	As at 30 Jun 14	As at 31 Dec 14	As at 31 Dec 13	As at 30 Jun 14
Derivative assets						
Interest rate swaps						
Cash flow hedge	25	402	75	-	25	1
Fair value through surplus/deficit	1,449	4,384	3,239	15	147	94
Forward foreign currency contracts						
Cash flow hedge	-	1	-	-	-	-
Fair value through surplus/deficit	3	202	-	-	-	-
Cross currency interest rate swaps						
Fair value hedge	-	-	-	-	5	-
Cash flow hedge	-	256	-	-	3	-
Fair value through surplus/deficit	796	-	-	33	-	-
Total derivative assets	**2,273**	**5,245**	**3,314**	**48**	**180**	**95**
Derivative liabilities						
Interest rate swaps						
Cash flow hedge	195	110	120	4	3	3
Fair value through surplus/deficit	7,049	2,522	4,294	358	73	125
Forward foreign currency contracts						
Cash flow hedge	130	273	245	13	35	42
Fair value through surplus/deficit	-	2	4	-	-	-
Cross currency interest rate swaps						
Cash flow hedge	-	521	-	-	58	-
Fair value hedge	-	-	-	-	9	-
Fair value through surplus/deficit	559	38	1,356	47	5	107
Total derivative liabilities	**7,933**	**3,466**	**6,019**	**422**	**183**	**277**

Notes to the financial statements (unaudited)

6 Property, plant and equipment

$million	6 months to 31 Dec 14	6 months to 31 Dec 13	12 months to 30 Jun 14
Additions	801	649	1,626
Disposals and transfers to non-current assets held-for-sale	(33)	(17)	(106)

There have been no indicators of significant changes in fair value for all property, plant and equipment asset classes between 30 June 2014 and 31 December 2014.

7 Investment in associates and joint ventures

The following changes have occurred in the Group's investments in associates and joint ventures during the six months to 31 December 2014:

			Percentage ownership			
Name of entity	Principal activity	Date of change	As at 31 Dec 14	As at 31 Dec 13	As at 30 Jun 14	Relationship
Longburn Intermodal Freight Hub Limited	Freight Logistics	11 September 2014	33%	-	-	Associate of Ports of Auckland Limited
Conlinxx Limited	Freight Logistics	1 October 2014	-	100%	100%	Former Subsidiary of Ports of Auckland Limited
Nexus Logistics Limited	Freight Logistics	1 October 2014	50%	-	-	Joint venture of Ports of Auckland Limited

The above changes had no material impact on the Group's financial statements.

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

$million	6 months to 31 Dec 14	6 months to 31 Dec 13	12 months to 30 Jun 14
Surplus after income tax	**638**	**950**	**676**
Add/(less) non-cash items:			
Depreciation and amortisation	378	358	737
Net unrealised increase/(decrease) in financial assets/liabilities held at fair value through surplus or deficit	195	(179)	(94)
Net gain/(loss) on revaluation of property, plant and equipment and intangible assets	-	2	(412)
Vested assets (non- Crown)	(132)	(71)	(161)
Share of surplus/(deficit) in associates and jointly-controlled entities (net of dividends received)	(2)	(21)	71
Net increase/(decrease) in fair value of investment property	1	(7)	(10)
Time value adjustments	10	-	18
Impairment of property, plant and equipment, receivables and other assets	8	-	26
Other non-cash items	(6)	14	(2)
Other movements:			
Less items classified as investing or financing activities	(33)	(4)	(32)
Less deferrals and accruals	(755)	(631)	6
Net cash inflow from operating activities	**302**	**411**	**823**

Notes to the financial statements (unaudited)

9 Treasury management

$million	As at 31 Dec 14	As at 31 Dec 13	As at 30 Jun 14
Borrowings	6,984	6,137	6,341
Add bank overdraft	5	1	4
Less cash and cash equivalents	(461)	(342)	(206)
Total borrowings and bank overdraft less cash and cash equivalents	**6,528**	**5,796**	**6,139**

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

Debt Maturity	As at 31 Dec 14	As at 31 Dec 13	As at 30 Jun 14
< 3 years	42%	38%	34%
3-6 years	19%	21%	33%
6-10 years	21%	22%	16%
10+ years	18%	19%	17%
Total	**100%**	**100%**	**100%**

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

There were no defaults or breaches on any borrowing arrangement during the period (31 December 2013: nil; 30 June 2014: nil).

10 Provisions

There have been no material changes in provisions between 30 June 2014 and 31 December 2014.

11 Capital commitments

There have been no material changes in capital commitments between 30 June 2014 and 31 December 2014.

12 Contingent liabilities

There have been no material changes in contingent liabilities between 30 June 2014 and 31 December 2014, including the Group's estimated obligation for weathertightness claims.

13 Related parties

There have been no significant related party transactions that were not on arm's length basis between 1 July 2014 and 31 December 2014.

14 Events after the reporting period

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

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INDEPENDENT REVIEWER'S REPORT

TO THE READERS OF AUCKLAND COUNCIL GROUP'S INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

I am the auditor of Auckland Council (the Council) and its subsidiaries (together, the Auckland Council Group). I have used my staff and resources and appointed auditors and their staff to carry out a review of the Auckland Council Group's interim financial statements for the six months ended 31December2014.

I have reviewed the interim financial statements of the Auckland Council Group on pages 5 to 13 that comprise the statement of financial position as at 31 December 2014, the statement of revenue and expenditure, statement of changes in equity and statement of cash flows for the six months ended on that date, and the notes to the interim financial statements. This information is stated in accordance with the accounting policies set out on pages 9 and 10.

Unqualified review Opinion

Based on my review, which is not an audit, nothing has come to my attention that causes me to believe that the Auckland Council Group's interim financial statements on pages 5 to 13 do not:

- comply with generally accepted accounting practice in New Zealand; and/or
- fairly reflect, in accordance with PBE IAS 34: *Interim Financial Reporting*:
  - Auckland Council Group's financial position as at 31 December 2014; and
  - the results of its operations and cash flows for the six months ended on that date.

My review was completed on 27 February 2015. This is the date at which my review opinion is expressed.

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

Basis of the review opinion

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

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

Council responsibilities and my role as reviewer

The Council is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of interim financial statements which fairly reflect the financial position of the Auckland Council Group as at 31 December 2014 and the results of operations and cash flows for the six months ended on that date, in accordance with PBE IAS 34: *Interim Financial Reporting*. The Council is also responsible for the publication of the interim financial statements, whether in printed or electronic form.

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

- comply with generally accepted accounting practice; or
- fairly reflect the Auckland Council Group's financial position as at 31 December 2014 and the results of operations and cash flows for the six months ended on that date.

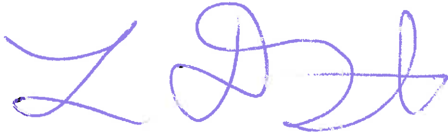
Independence

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

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

- the audit of the Council and the Auckland Council Group's financial statements, Auckland Council Group's activity statements, other information and local board reports contained in its annual report for the year ended 30 June 2014;
- an assurance assignment in respect of information provided by the Council and Auckland Council Group as required by the terms of its foreign borrowings programme; and
- an audit of the Council and Auckland Council Group's consultation document for its proposed 2015-25 long-term plan.

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



Lyn Provost
Auditor-General
Wellington, New Zealand

Summary of Waivers Granted by NZX Limited

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

- Listing Rule 5.1.2(j) (decision published by NZX on 26 August 2010);
- Listing Rule 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 10.4.1(b) and 10.4.4 (decision published by NZX on 3 October 2014); and
- Listing Rule 5.2.3 – further extension of the original waiver granted by NZX on 10 December 2012, which was extended by NZX on 18 December 2013 (decision published 18 December 2014).

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 2012 NZX granted Auckland Council a waiver from Listing Rule 5.2.3 to allow Auckland Council 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 has since been extended twice (in December 2013 and December 2014) for a period of one year each, on the basis that it be disclosed in Auckland Council'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 Auckland Council 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 2012 waiver) and that debt securities are not subject to the same degree of trading activity as equity securities.

For the details of other waivers, please refer to the 30 June 2014 annual report.

Other exchange listings

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

- Swiss Exchange
- Singapore Stock Exchange

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

Main differences between IFRS and PBE Accounting Standards

Introduction

Under the New Zealand Accounting Standards Framework, public sector public benefit entities (PBEs) have to transition to PBE Accounting Standards for periods beginning on or after 1 July 2014. The New Zealand Accounting Standards Framework defines public benefit entities (PBEs) as reporting entities "whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders". Many public sector entities are classified as PBEs. Auckland Council Group (the Group) is classified as a public sector PBE for financial reporting purposes and therefore the financial statements of the Group have been prepared in accordance with PBE Accounting Standards.

The Group has transitioned to the PBE Standards in the current financial year and this is its first set of interim financial statements presented in accordance with PBE IAS 34 Interim Financial Reporting. The Group will prepare its first annual financial statements in accordance with PBE Accounting Standards for the year ending 30 June 2015 with comparative information restated as if the Group had always applied PBE Accounting Standards. Prior to the transition, the financial statements of the Group were prepared in accordance with New Zealand Equivalents to IFRS as applicable to PBEs (NZ IFRS PBE). These standards were based on IFRS with modifications and exemptions from certain requirements of IFRS. The impact of the transition on the Group's financial position and financial performance is outlined in note 2 of the financial statements attached.

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

Set out below are the key differences in recognition and measurement between PBE Accounting Standards applicable to the Group and IFRS (issued as at 31 December 2014 and applicable to annual periods beginning on or after 1 July 2014). Differences that impact only on presentation and disclosure have not been identified.

Formation of Auckland Council Group

PBE Accounting Standards

PBE IFRS 3 Business Combinations contains a scope exemption for business combinations arising from local authority reorganisations. This scope exemption is carried forward in NZ IFRS 3 (PBE) Business Combinations, the standard that was applicable to the Group at the time it was formed on 1 November 2010 as a result of the amalgamation of eight predecessor Auckland local authorities. Under the exemption, all assets and liabilities of the predecessor local authorities were recognised by the Group using the predecessor values of those assets and liabilities. The initial value at which those assets and liabilities were recognised by the Group is deemed to be their cost for accounting purposes.

IFRS

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

Impact

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

Main differences between IFRS and PBE Accounting Standards (continued)

PBE Accounting Standards that have no IFRS equivalent

Revenue from non-exchange transactions

PBE Accounting Standards

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

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

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

IFRS

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

Impact

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

As a result of adopting PBE IPSAS 23, the timing of recognising the Group's rates revenue has changed to recognise annual general rates revenue as at the date of issuing the rating notices for the annual general rate charge. This is contrary to the Group's previous accounting policy under NZ IFRS PBE to recognise general rates revenue progressively throughout the annual period. The impact of this change has increased the reported revenue and net assets in the interim financial statements of the Group as outlined in more detail in note 3 of these interim financial statements. The change to the Group's accounting policy relating to general rates revenue recognition has minimal impact on the revenue and net assets reported in the Group's annual financial statements.

Service Concession Arrangements (Public Private Partnership Arrangements)

PBE Accounting Standards

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

PBE IPSAS 32 requires the grantor (public entity) to recognise the service concession asset and a corresponding liability on its balance sheet. The liability can be a financial or other liability or a combination of the two depending on the nature of the compensation of the operator. A financial liability is recognised if the grantor compensates the operator by the delivery of cash or another financial asset. A non-financial liability is recognised if a right is granted to the operator to charge the users of the public service related to the service concession asset (liability for unearned revenue).

IFRS

IFRS contains no specific guidance addressing the accounting by the grantor (public entity) in a service concession arrangement. However IFRS contains guidance for the operator's accounting (private entity) and NZ practice has been for the grantor (public entity) to 'mirror' the accounting treatment of the private entity.

Main differences between IFRS and PBE Accounting Standards (continued)

PBE Accounting Standards that have no IFRS equivalent (continued)

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

Impact

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

PBE Accounting Standards with comparable IFRS equivalent

Property, Plant and Equipment

PBE Accounting Standards

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

IFRS

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

Impact

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

Borrowing Costs

PBE Accounting Standards

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

IFRS

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

Impact

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

Impairment of Assets

PBE Accounting Standards

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

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

Main differences between IFRS and PBE Accounting Standards (continued)

PBE Accounting Standards with comparable IFRS equivalent (continued)

Impairment of Assets (continued)

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

IFRS

IFRS does not provide specific guidance for the impairment of non-cash-generating assets.

The value in use of an asset or a cash generating unit is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

The guidance in IAS 36 Impairment of Assets applies to all property, plant and equipment, including those measured at fair value.

Impact

Assets whose future economic benefits are not primarily dependent on the asset's ability to generate cash and which might not be impaired under PBE Accounting Standards might be impaired under IFRS due to limited generation of cash flows. The Group asset values may therefore be higher than under IFRS because some impairments may not be required under PBE Accounting Standards when impairment would be recognised under IFRS.

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

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

PBE Accounting Standards where the IFRS equivalent is not comparable

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

Consolidated Financial Statements

PBE Accounting Standards

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

IFRS

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

Impact

The Group does not believe that the application of IFRS 10 would result in more or fewer entities being consolidated than under PBE IPSAS 6.

Joint Arrangements

PBE Accounting Standards

PBE IPSAS 8 Joint Ventures defines three types of joint ventures: jointly controlled assets, jointly controlled operations and joint ventures.

Main differences between IFRS and PBE Accounting Standards (continued)

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

Joint Arrangements (continued)

IFRS

IFRS 11 Joint Arrangements focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures.

Impact

The Group does not believe that the application of IFRS 11 would result in a material change to the Group's results and net assets.

Fair Value Measurement

PBE Accounting Standards

There is no specific standard in the PBE Accounting Standards, however a number of PBE Accounting Standards contain guidance on the measurement of fair value in specific context (for example PBE IPSAS 29 Financial Instruments: Recognition and Measurement).

IFRS

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

Impact

It is possible that the application of IFRS 13 may result in differences in the measurement of certain financial assets and liabilities compared to PBE IPSAS 29.

Employee Benefits

PBE Accounting Standards

PBE IPSAS 25 Employee Benefits is based on IPSAS 25. IPSAS 25 is based on IAS 19 Employee Benefits (2004).

IFRS

IAS 19 Employee Benefits (2011) introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits compared to IAS 19 (2004). The standard also requires net interest expense/income to be calculated as the product of the net defined benefit liability/asset and the discount rate as determined at the beginning of the year.

Impact

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