



HALF YEAR
REPORT
31 DECEMBER
2011

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MESSAGE FROM THE MAYOR



"WE ARE 18 MONTHS ON FROM THE LARGEST LOCAL GOVERNMENT AMALGAMATION IN NEW ZEALAND HISTORY. I DON'T THINK ANYONE FORESAW THE ENORMITY OF THE TASK AHEAD OR HOW WELL IT WOULD BE DEALT WITH."

Auckland Council is a very large organisation and, while it will take time for its many parts to function in perfect synchronicity, it has been a significant accomplishment getting it up and running.

During the next three years, we will develop a single rating system that is fair and balanced for every Aucklanders, no matter where you live.

This was one of the many responsibilities set down by the government and is the single greatest challenge we face. By keeping rates at or around the rate of inflation and by providing those most affected with assistance through the transition, we are making this process as smooth as possible.

Through the Auckland Plan I have set down my vision for how Auckland will look 30 years from now and during the past month some of you have had your say on our plan to implement that vision.

The vision is bold – I accept that – but the time has come to take responsibility for among other things creating a transport system that will serve our city for generations.

To achieve this I have put to you a range of options for meeting our funding shortfall. We can no longer defer these tough decisions to future generations.

There are even greater challenges ahead but this is an organisation geared to meet them head on.

A handwritten signature in black ink, appearing to be 'Len Brown'.

Len Brown
Mayor of Auckland

MESSAGE FROM THE CHIEF EXECUTIVE

"AUCKLAND COUNCIL HAS REACHED AN IMPORTANT STAGE IN ITS EVOLUTION – MOVING FROM AN ORGANISATION IN TRANSITION TO ONE LEADING THIS REGION INTO AN ERA OF TRANSFORMATION."

Our first 18 months have been filled with many challenges as we set the foundations to move to this next phase but there have also been many triumphs.

The Rugby World Cup was a huge success and the collaboration across many organisations, including this council, our council-controlled organisations and central government was key to that success.

Auckland Transport's agreement to purchase 57 Electric Multiple Units for use on the city's metropolitan rail network and the opening of the Viaduct Events Centre and North Wharf also occurred during this period.

In this six month reporting period the Auckland Council Group has invested approximately \$520 million replacing and building new assets across the region.

These cover a broad range of new strategic initiatives such as the strategic growth project in the north west of the city and business as usual, such as renewing and replenishing our region-wide library collection.

Below is an example of the many types of investment projects these funds have gone to:

- electrification of the urban rail network **\$47 million**
- increasing bulk water supply, treatment plant capacity **\$22 million**
- north west strategic growth **\$19 million**
- increasing capacity in the wastewater interceptor **\$12 million**
- a new car park at Manukau **\$6 million**
- a grandstand in Massey Park **\$6 million**
- upgrading the Papatoetoe recreation grounds **\$5 million**
- restoring the Tepid Baths **\$5 million**
- library collections **\$4 million**

In terms of our financial performance we are also on track – as signalled by the recent affirmation of our long-term rating of AA by the credit agency Standard and Poor's.

We have a long-term programme in place to make significant savings and efficiencies.

As we look ahead to the next six months there is still a lot of important work to do including the implementation of a single rates system and the adoption and implementation of the Auckland Plan and our first Long-term Plan.



Doug McKay
Chief Executive
Auckland Council

GROUP STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

\$MILLIONS	NOTE	6 MONTHS TO 31 DEC 2011
Income		
Rates	4	789
Service and other		757
Finance		3
Other gains		5
Total income		1,554
Expenditure		
Personnel		339
Depreciation and amortisation		298
Finance		197
Loss on fair value of derivative instruments	19	128
Other		677
Total expenditure		1,639
Operating deficit before tax and share of equity accounted investments		(85)
Share of equity accounted investments' surplus		18
Deficit before tax for the period		(67)
Income tax benefit	5	(14)
Deficit after tax for the period		(53)
Attributable to:		
Auckland Council		(53)
Other comprehensive income		
Movement in share of reserves of associates		(3)
Loss on cash flow hedges	19	(28)
Gain on diversified financial asset		3
Total other comprehensive loss		(28)
Total comprehensive loss		(81)
Total comprehensive loss attributable to:		
Auckland Council		(81)

The accompanying notes form part of these financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

\$MILLIONS	CONTRIBUTED EQUITY	ACCUMULATED FUNDS	ASSET REVALUATION RESERVE	OTHER RESERVES	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Equity at 1 July 2011	26,354	(107)	1,300	437	27,984	1	27,985
Total comprehensive loss for the period	-	(53)	-	(28)	(81)	-	(81)
Transfers							
Transfers to/(from) accumulated funds	-	-	-	(4)	(4)	-	(4)
Transfers (to)/from other reserves	-	4	-	-	4	-	4
Equity at 31 Dec 2011	26,354	(156)	1,300	405	27,903	1	27,904

The accompanying notes form part of these financial statements.

GROUP STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 31 DECEMBER 2011

\$MILLIONS	NOTE	AS AT 31 DEC 2011	AS AT 30 JUNE 2011
ASSETS			
Current assets			
Cash and cash equivalents		209	130
Debtors and other receivables		383	351
Other financial assets		203	202
Derivative financial instruments		-	1
Inventories		17	20
Non current assets held for sale		3	2
Total current assets		815	706
Non-current assets			
Debtors and other receivables		133	25
Other financial assets		57	52
Derivative financial instruments		36	33
Property, plant and equipment	7	32,473	32,239
Intangible assets	8	296	299
Biological assets		5	5
Inventories		3	-
Investment properties	9	274	268
Equity accounted investments	11	656	660
Total non-current assets		33,933	33,581
TOTAL ASSETS		34,748	34,287

The accompanying notes form part of these financial statements.

GROUP STATEMENT OF FINANCIAL POSITION (UNAUDITED) (CONTINUED)

\$MILLIONS	NOTE	AS AT 31 DEC 2011	AS AT 30 JUNE 2011
LIABILITIES			
Current liabilities			
Derivative financial instruments		9	11
Creditors and other payables		491	584
Employee entitlements		74	66
Borrowings	13	735	950
Tax payable	5	3	1
Provisions	14	68	67
Total current liabilities		1,380	1,679
Non-current liabilities			
Derivative financial instruments		293	126
Creditors and other payables		9	9
Employee entitlements		7	7
Borrowings	13	3,797	3,081
Provisions	14	487	512
Deferred tax liabilities	6	871	888
Total non-current liabilities		5,464	4,623
TOTAL LIABILITIES		6,844	6,302
NET ASSETS		27,904	27,985
EQUITY			
Contributed equity		26,354	26,354
Accumulated funds		(156)	(107)
Reserves		1,705	1,737
Total ratepayers equity		27,903	27,984
Non controlling interest		1	1
TOTAL EQUITY		27,904	27,985

The accompanying notes form part of these financial statements.

GROUP STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

\$MILLIONS	NOTE	6 MONTHS TO 31 DEC 2011
Cash flows from operating activities		
Receipts from rates revenue, customers and other services		1,403
Interest received		1
Dividends received		16
Payments to suppliers and employees		(1,088)
Interest paid		(129)
Income tax refund		(8)
Goods and services tax paid (net)		(60)
Other		(1)
Net cash from operating activities	15	134
Cash flows from investing activities		
Proceeds from matured medium-term investments		4
Proceeds from sale of property, plant and equipment		14
Proceeds from loan repayments		2
Purchase of property, plant and equipment		(501)
Purchase of intangible assets		(17)
Purchase of medium-term investments		(10)
Purchase of subsidiary		(1)
Purchase of other investments		(2)
Net cash from investing activities		(511)
Cash flows from financing activities		
Proceeds from borrowings		1,578
Repayment of borrowings		(1,074)
Payments of finance leases		(3)
Repayment of foreign exchange contracts		(42)
Net cash from financing activities		459
Net increase in cash and cash equivalents and bank overdrafts		82
Cash and cash equivalents and bank overdrafts at 1 July 2011		127
Cash and cash equivalents and bank overdrafts at 31 December 2011		209

The GST (net) component of operating activities reflects the net GST paid to and received from the Inland Revenue. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of the other primary financial statements.

Proceeds from borrowings and repayment of borrowings include existing facilities which have been rolled into new maturities.

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

1. General information

With effect from 1 November 2010, the eight existing local authorities in the Auckland region and 20 council-controlled organisations were disestablished. A new unitary authority, Auckland Council ('the council'), and six new council-controlled organisations were formed. New governing structures were established from this date.

The council is governed by the Local Government Act 2002 and the Local Government (Auckland) Act 2009 and is domiciled in New Zealand.

Auckland Council Group ('the Group')

The Group consists of the ultimate Parent, Auckland Council, and its subsidiaries, associates and joint ventures. All subsidiaries and associates are domiciled in New Zealand.

The primary objective of Auckland Council and Group is to provide goods or services for the community or social benefit rather than making a financial return. Accordingly, the council has designated itself and the Group as public benefit entities for the purposes of New Zealand equivalents to International Financial Reporting Standards.

Auckland Council and Group prepared accounts for the eight months ended 30 June 2011. The financial statements were audited and authorised for issue by the council on 27 October 2011. This is the first half year report prepared by the Group and is unaudited.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out in the Auckland Council and Group annual report to 30 June 2011. These policies have been consistently applied to the reporting period to 31 December 2011.

These interim financial statements of Auckland Council and Group have been prepared in accordance with New Zealand generally accepted accounting practice. They comply with NZ IAS 34 (apart from the requirement to disclose comparative figures as the comparable period was a two month period following the formation of the Group on 1 November 2010) and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

3. Critical accounting estimates and judgements

The accounting estimates and judgements used in the Auckland Council and Group annual report to 30 June 2011 have been applied to the six month period ended 31 December 2011.

4. Rates income

Rates income for the period includes \$86 million of income received for instalments 3 and 4 in advance.

5. Income tax

Current tax expense for the interim period presented is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted by balance date.

6. Deferred tax

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of the assets and liabilities, using tax rates enacted or substantially enacted by balance date.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

7. Property, plant and equipment

\$MILLIONS	ACTUAL AS AT 31 DEC 2011
Total cost of assets acquired	526
Net book value of assets disposed	(8)
Profit on assets disposed	9

8. Intangible assets

\$MILLIONS	ACTUAL AS AT 31 DEC 2011
Total cost of assets acquired	17

9. Investment properties

\$MILLIONS	ACTUAL AS AT 31 DEC 2011
Total cost of assets acquired	8
Transfers to property, plant and equipment	(2)

10. Investment in subsidiaries

The following changes have occurred in the six months to 31 December 2011.

Acquisition of Auckland Film Studios Ltd

At 30 June 2011 Auckland Council investments Ltd ('ACIL') held 44.4 per cent of the issued shares of Auckland Film Studios Ltd ('AFSL'). AFSL owns the film studio complex at Henderson and is New Zealand's premier supplier of infrastructure for the screen production industry. On 5 August 2011 ACIL acquired the remaining 55.6 per cent of the issued share capital for cash consideration of \$1,515,000.

11. Equity accounted investments

NAME	PRINCIPAL ACTIVITY	OWNERSHIP INTEREST	CARRYING AMOUNTS
		31 DEC 2011 %	31 DEC 2011 \$MILLIONS
Investments in associates			
Auckland International Airport Ltd	Airport infrastructure	22.4	650
United Containers Ltd	Container depot	27.5	4
Investments in equity accounted joint venture			
North Tugz	Marine towage	50	-
Seafuels Ltd	Re-fuelling services for ships	50	2
			656

12. Proportionally accounted joint ventures

The Group has the following joint venture interests:

50 per cent in Waste Disposal Services which is accounted for as a jointly controlled operation; and 70 per cent in Araparera Forestry which is accounted for as a jointly controlled asset.

13. Borrowings

During the six months ended 31 December 2011, total borrowings increased by \$501 million to \$4.5 billion.

As opportunities presented themselves an effort was made to increase the average term of debt. Term debt as a percentage of total borrowings has increased from 76 per cent to 84 per cent during the period.

European Medium Term Notes Programme

Section 107 of the Local Government (Auckland Council) Act 2009 creates an exception for the Council to the prohibition in section 113(1) of the Local Government Act 2002 against local authorities borrowing or entering into incidental arrangements in foreign currency.

Following the enactment of the amendment to the Local Government (Auckland Council) Act 2009 in September 2011, the Council initiated a US\$2.5 billion Secured Medium Term Notes Programme on 30 November 2011, allowing multi currency borrowings in offshore markets. The programme is listed on the Singapore Stock Exchange. All borrowings under the programme will be fully hedged to eliminate any foreign currency fluctuations.

The debt obligations of the council under the programme are secured pursuant to the existing Debenture Trust Deed and will rank pari passu with council's domestic debt. Offshore lenders under the programme, like domestic lenders, will receive as security a charge over rates and future rates income of the council.

Market conditions permitting, it is anticipated that the first issue under this programme will take place in the second quarter of 2012.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

New Zealand Local Government Funding Agency

The Local Government Borrowing Act 2011 enabled the establishment of The NZ Local Government Funding Agency Ltd ('LGFA') which was incorporated on 1 December 2011. The LGFA is owned by 18 Local Authority Councils, including the council and the Crown. It is a council-controlled organisation operating under the Local Government Act 2002. The LGFA's primary purpose is to provide more efficient funding costs and diversified funding sources (including foreign currency) for NZ local authorities. It will provide investors with a new source of securities rated at AA+ (domestic long term) by international credit ratings agencies Standard and Poor's and Fitch Ratings. These ratings are the same as the NZ Government.

The council subscribed for four million shares in the LGFA on which \$2 million has been paid and \$2 million remains uncalled. The council holds 8 per cent of the paid up capital and 8.9 per cent of the issued capital.

Several layers of shareholder support have been established to gain the AA+ credit rating. The principal elements of this support are:

- shareholders, other than the government, have granted to the LGFA the right for the company to issue further shares to the shareholders
- as participating local authorities borrow from the LGFA, the local authority must invest 1.6% of the borrowings in borrower notes ('Notes') issued by the LGFA. The Notes are redeemed when the borrowing is repaid. The LGFA has the right to convert the Notes to redeemable preference shares
- shareholders, other than the government, have provided guarantees for the liabilities of the LGFA.

The right of the LGFA to issue further shares, convert the Notes or call on the guarantee is restricted as to priority and certain events occurring or being anticipated.

The council has carried out a preliminary assessment of its guarantee obligations and estimated and recognised a \$4.4 million liability under the guarantee.

Purchase and Funding of Electric Multiple Unit Train Fleet

On 1 September 2011 a joint announcement was made by the Minister of Transport, Auckland Transport, Auckland Council and NZ Transport Agency with funding assistance from the Crown, Auckland Transport, a council-controlled organisation is to purchase 57 three-car Electric Multiple Units ('EMU') and to develop an EMU maintenance facility.

The funding from the Crown will be by way of a 35-year loan of \$400 million plus a 50-year loan of \$100 million with a series of drawdowns from the Crown's Debt Management Office. In addition, the Crown will provide a non-repayable grant of \$90 million. This grant is expected to be paid to the council in the 2015/2016 financial year. If the two projects exceed the Crown funding, the balance will be met by the Group.

The council will act as a conduit for funding purposes through the centralised Auckland Council Treasury function, with the council borrowing from the Crown facility via a series of drawdowns, and then on-lending to Auckland Transport for meeting its payment obligations. As some of the payment obligations are denominated in foreign currency, Auckland Transport also uses Auckland Council Treasury function to arrange forward foreign exchange contracts on its behalf to hedge against any foreign currency fluctuations.

The first drawdown of \$20 million on the \$400 million loan occurred in November 2011.

14. Provisions

There have been no material changes in provisions between 30 June and 31 December 2011. The provision associated with the settlement of weathertightness claims continues to represent over 77 per cent of the value of the total provision.

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

\$MILLIONS	6 MONTHS TO 31 DEC 2011
DEFICIT AFTER TAX	(53)
Add/(less) non cash items:	
Depreciation and amortisation expense	298
Increase in other provisions	4
Movement in derivative instruments	129
Vested assets	(13)
Tax credit	(15)
Share of associates surplus	(3)
Other	2
Add/(less) items classified as investing or financing activities:	
Gains on disposal of property, plant and equipment	(12)
Add/(less) items movements in working capital items:	
Creditors and other payables	(96)
Employee benefits	8
Tax receivables/payables	(4)
Capital project items in creditors and other payables	(57)
Inventories	3
Debtors and other receivables	(32)
Provisions	(25)
Net cash inflow from operating activities	134

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

16. Capital commitments

\$MILLIONS	ACTUAL AS AT 31 DEC 2011
Increase in property, plant and equipment capital commitments	100
Decrease in other capital commitments	(2)

17. Contingencies

\$MILLIONS	ACTUAL AS AT 31 DEC 2011
Increase in contingent liabilities	2

Local Government Funding Agency Ltd guarantee

The LGFA has uncalled capital of \$20 million. The uncalled capital can be called by the LGFA at any time, but is most likely to be called if there is a liquidity event. The Group's portion of the uncalled capital is to match dollar for dollar its paid up capital. As such, there is a contingent liability for uncalled capital of \$2 million.

18. Related party transactions

Transactions with key management personnel

Key management personnel include the Mayor, Councillors, Local Board Members, Chief Executive and the senior management team of the council.

Key management personnel, as part of a standard customer relationship, were involved in minor transactions with the Group such as the payment of property rates, water rates etc.

The following key management personnel were members of organisations that had significant dealings with Auckland Council and Group as part of the normal operations.

During the six months to 31 December 2011 the Group has entered into the following transactions:

Transactions with related parties exceeding \$250,000

RELATED PARTY	POSITION	ORGANISATION	PAYMENTS MADE TO ORGANISATION \$	BALANCE OWING AT 31 DEC 2011 \$
Arthur Anae and Sir John Walker	Councillors	Trustees of the John Walker Find Your Field of Dreams Trust	351,834	-
Richard Northey	Councillor	Board member on the Observatory and Planetarium Board	950,000	-
Ken Baguley	Local board member	Auckland Regional Helicopter Trust	1,200,000	-
Andrew Baker	Local board member	Trustee of the Safer Papakura Trust	283,050	-
Derek Battersby	Local board member	Chairperson of the Tag Out Trust	456,304	-
Kay McIntyre	Local board member	Project Director of refurbishment of outdoor courts for the Auckland Netball Centre	447,793	-
Don McKenzie	Local board member	Trustee of the Bledisloe Estate Trust	313,961	292,439
Greg Presland	Local board member	Trustee of the Lopdell House Development Trust	479,177	102,073
Lisa Whyte	Local board member	Husband is a Director and Shareholder in Tonkin and Taylor Limited	1,042,527	-
Michael Williams	Local board member	Chief Financial Officer for Treescape Limited	2,143,338	-
Denise Yates and Derek Battersby	Local board members	Trustees of the Ecomatters Environment Trust	360,516	-
Shelley Watson	Senior executive	Brother is part of the Senior Management at Smart Environmental Ltd	1,331,182	-

Transactions with associates

During the six months to 31 December 2011 the Group has entered into the following transactions with its associates:

\$MILLIONS	6 MONTHS TO 31 DEC 2011
Rates revenue received	3
Revenue from other services provided	1

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

19. Financial risk management

Interest rate risk exposures

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating rates. The Group uses interest rate swaps from time to time to manage these exposures.

The method of recognising the gain or loss on derivatives depends on whether the derivative is designated as a hedging instrument. Changes in the fair value of derivative instruments designated as cash flow hedges are accounted for in the cash flow hedge reserve, and changes in the fair value of derivative instruments that do not qualify for the hedge accounting are recognised immediately in the income statement.

Foreign currency risk exposures

The Group undertakes transactions denominated in foreign currencies from time to time and as a result of these activities, exposures in foreign currency arise. It is the Group's treasury policy to hedge foreign currency risks as they arise. The Group uses forward foreign exchange contracts to manage these exposures.

Loss on derivatives

In the course of funding the Group's operations and capital projects, the Group's total borrowings as at 31 December 2011 were \$4.5 billion. In order to provide certainty of future interest payments, the Group has actively entered into both medium- and long-term interest rate swaps. Forward interest rate swaps in recent months are favourable relative to the expected long-term trend.

At 31 December 2011, these fixed interest rates are less favourable when compared to the current market floating interest rate, resulting in \$128 million of loss during the six months ended 31 December 2011 when these derivatives have been fair valued under the guidelines of NZ IAS 39. These losses have been recognised in the profit or loss as a number of interest rate swaps are not designated in a hedge relationship or do not meet the NZ IAS 39 effectiveness test requirements.

Over the lives of the interest rate swaps it is probable these losses will be reversed. In the event the future floating rate rises above the swapped fixed rate a gain will be recognised.

20. Events occurring after the balance date

There were no material events post balance date that would require adjustments or disclosures in the financial information presented in this interim financial report.

STATEMENT OF RESPONSIBILITY

RESPONSIBILITY

The council and management of Auckland Council Group ('the Group') 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 the 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 the Auckland Council the financial statements for the six months ended 31 December 2011 fairly reflect the financial performance and financial position of the Group.



Len Brown
Mayor of Auckland
15 March 2012



Doug McKay
Chief Executive, Auckland Council
15 March 2012

