Auckland Council Group Interim Report

31 December 2013

Auckland Council
Te Kaunihera o Tāmaki Makaurau

BC3314

Contents

Message from the mayor

Auckland is starting to reap the benefits as it evolves into a major international city.

We have just successfully hosted tens of thousands of visitors, joining Aucklanders at the Dick Smith NRL Nines, the Auckland Lantern Festival and the Eminem concert all in one weekend, reflecting our status as an internationally award-winning major events city. This also reflects how Auckland's transport network can accommodate the additional visitors seamlessly.

Our hotels and restaurants were full, our transport system running efficiently and the atmosphere was buzzing. These are the sort of reasons that Lonely Planet named Auckland one of the top 10 cities to visit in 2014.

Auckland's economic potential is also starting to be realised. Both Auckland International Airport and Ports of Auckland will return larger than expected dividends to Auckland Council (the council). The private sector's growing confidence in Auckland's transformation can be seen in more than $1 billion worth of investment planned for commercial developments along the proposed City Rail Link route.

The group has invested $649 million in Auckland during this period, including $49 million on Auckland's single largest transport programme, Auckland Manukau Eastern Transport Initiative, and $47 million towards our new electric trains, which start passenger services in April.

We continue our commitment to reducing the burden on ratepayers, with an average 2.9 per cent increase for 2013/14 and a proposed 2.4 per cent average for the next financial year.

The council is working closely with central government on the Housing Accord, to address Auckland's housing availability and affordability challenges. During the period of this report, the council established the dedicated Housing Project Office.

Now we begin work on our long-term plan, our 10-year work programme for the council and its council-controlled organisations. It will be a chance to have a robust discussion with Aucklanders about capital expenditure, alternative revenues, infrastructure funding and sustainable debt levels.

Len Brown
Mayor of Auckland

Message from the chief executive

I am immensely impressed in what Auckland Council Group (the group) has achieved in its first three years.

During the six months to 31 December 2013 the group has continued delivering our core services to customers, ratepayers and visitors to our great city.

Our public transport network carried 70 million passengers over the past year and 85 per cent of public transport passengers are satisfied with the public transport service provided. More than 200,000 Aucklanders are now using the Auckland Transport HOP card.

Over the past six months, Watercare's supply network, which includes 12 dams, 21 water treatment plants, 84 reservoirs and approximately 8,600 kilometres of pipework, delivered some 56 billion litres of water to the Auckland region.

In the same period about 76 billion litres of wastewater and stormwater were transported through an 8,200 kilometre network of wastewater pipes to the 18 treatment plants for processing and disposal - ensuring our beautiful harbours can remain clean.

Also during this period the group:
- collected 91,000 tonnes of household refuse and 59,000 tonnes of household recycling
- managed and maintained more than 4,000 local and sports parks
- issued 8 million library items
- delivered, hosted or supported a multitude of regional and local events with the Heritage Festival, Matariki, Music in Parks and Auckland Libraries' Manatunga exhibition among them.

In addition to our core service delivery we have continued to prepare for Auckland's future with the Proposed Auckland Unitary Plan released for submissions following extensive and successful preliminary consultation.

To make sure our city maintains excellent services for a growing population $649 million was invested to renew and expand our assets.

The extensive capital investment programme included roading ($182 million) and passenger transport initiatives ($92 million) to improve travel times and give Aucklanders greater travel options through projects such as Auckland Manukau Eastern Transport Initiative, new electric trains, road resurfacing and planning for the Central Rail Link.

We also invested in water and wastewater systems ($134 million), parks ($45 million), stormwater network ($22 million) and community facilities ($18 million) to further improve Auckland's infrastructure. The strategic investments we hold in Ports of Auckland and Auckland International Airport continue to provide strong financial returns, with each reporting record first half year earnings.

Across the group, managers continue to focus on improving efficiency. The strength of the group's financial management has been recognised by two major international credit rating agencies with Standard & Poor's and Moody's have reaffirmed the council's long-term credit ratings of AA and Aa2 respectively.

This means the group remains one of the highest rated entities in New Zealand and demonstrates that alongside the solid delivery of service, prudent investment and strong financial stewardship the group is providing Aucklanders value for money.

Stephen Town
Chief Executive
Auckland Council

Financial commentary

Auckland Council Group (the group) generated a net operating surplus of $161 million for the first six months of the 2013/14 financial year, an increase of $98 million over the same period last year.

The improvement is the result of increased revenues and tight management of expenditure.

Operating revenue is up by $131 million or 8.3 per cent compared to the corresponding period. Revenue from port activities, parking and transport were significant contributors. Development and financial contributions are also up by $18 million reflecting increased building and development activity in the city. Ratepayers paying rates earlier than the instalment date also contributed to the increase in rate income.

Increased subsidies from New Zealand Transport Agency and $14 million more assets vested to the group lifted other income.

Operating expenditures were well-controlled, increasing by 2.2 per cent, or $30 million. The principle contributor being depreciation and amortisation reflecting the increased investment in assets through which the group's services to the community are provided.

Net finance costs are in line with the corresponding period notwithstanding an increase in the level of debt illustrating the group's prudent management of exposure to interest rate movements.

The group recorded a $179 million unrealised gain on interest rate derivatives.

This contributes to a strong net surplus after tax position of $336 million for the first half of the year. The previous year result of $478 million surplus included a one-off vesting of assets from the Crown of $385 million.

Total net assets for the group increased by $330 million from June 2013. The key contributors include net investment in property, plant and equipment $295 million, increase fair value of derivative financial instruments $146 million and a decrease in payables and accruals $141 million due to the timing of the group's operating activities. These were offset by an increase in debt $254 million.

During the period the group invested $649 million to expand and renew community and infrastructure assets. This was funded primarily by operating cash surpluses $395 million and new debt $254 million.

The group has prudently managed the debt portfolio over the six month raising new debt and refinancing $641 million of maturing debt. The group's approach to debt management is to diversify its funding sources with a mix of domestic, Local Government Funding Agency and offshore borrowings. During the six months the group extended the term of debt and lowered cost of funding.

Statements of comprehensive income

$millions	Note	Unaudited 6 months to 31 Dec 2013	Unaudited 6 months to 31 Dec 2012	Audited 12 months to 30 Jun 2013
Revenue				
Rates	3	775	745	1,337
Fees and user charges		502	472	952
Operating grants		114	121	225
Capital grants		90	65	165
Development and financial contributions		47	29	64
Other	4	174	139	319
Total revenue		**1,702**	**1,571**	**3,062**
Expenses				
Employee benefits		357	353	693
Depreciation and amortisation		358	333	681
Grants, contributions and sponsorship		87	74	108
Other		564	576	1,189
Total expenses		**1,366**	**1,336**	**2,671**
Finance income		(6)	(4)	(18)
Finance expense		181	176	345
Net finance expense		**175**	**172**	**327**
Operating surplus		**161**	**63**	**64**
Assets vested by the Crown		-	385	385
Net other gains/(losses)	5	171	11	(230)
Share of surplus in associates and jointly-controlled entities		21	18	41
Surplus before income tax		**353**	**477**	**260**
Income tax (benefit)/expense	11	17	(1)	14
Surplus after income tax		**336**	**478**	**246**
Surplus after income tax is attributable to:				
Auckland Council		336	478	246
Non-controlling interest		-	-	-
Other comprehensive income				
Net gains on revaluation of property, plant and equipment		-	-	252
Tax on revaluation of property, plant and equipment		-	-	(73)
Cash flow hedges		(6)	(8)	22
Tax on cash flow hedges		(1)	-	(2)
Share of associates' and jointly-controlled entities' reserves		1	(3)	(3)
Net unrealised gains on revaluation of financial assets classified as available-for-sale		-	23	7
Realised gains/(losses) on revaluation of financial assets classified as available-for-sale recycled through surplus/(deficit)		-	(1)	(4)
Total other comprehensive income/(loss)		**(6)**	**11**	**199**
Total comprehensive income		**330**	**489**	**445**
Total comprehensive income is attributable to:				
Auckland Council		330	489	445
Non-controlling interest		-	-	-

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

Statements of changes in equity

Unaudited $millions	Contributed equity	Accumulated funds	Reserves	Total ratepayer equity	Non-controlling interest	Total equity
Balance as at 1 July 2012	**26,354**	**(301)**	**2,209**	**28,262**	**1**	**28,263**
Surplus after tax	-	478	-	478	-	478
Other comprehensive income	-	-	11	11	-	11
Total comprehensive income	**-**	**478**	**11**	**489**	**-**	**489**
Deconsolidation of Counties Manukau Pacific Trust	(39)	2	4	(33)	-	(33)
Acquisition of non-controlling interest	-	-	-	-	(1)	(1)
Transfers to/(from) reserves	-	3	(3)	-	-	-
Balance as at 31 December 2012	**26,315**	**182**	**2,221**	**28,718**	**-**	**28,718**

Unaudited $millions	Contributed equity	Accumulated funds	Reserves	Total ratepayer equity	Non-controlling interest	Total equity
Balance as at 1 July 2013	**26,734**	**(58)**	**2,152**	**28,828**	**-**	**28,828**
Surplus after tax	-	**336**	-	**336**	-	**336**
Other comprehensive income/(loss)	-	-	(6)	**(6)**	-	**(6)**
Total comprehensive income/(loss)	**-**	**336**	**(6)**	**330**	**-**	**330**
Prior period impairment of property, plant and equipment	-	(12)	12	-	-	-
Transfers to/(from) reserves	-	(30)	30	-	-	-
Balance as at 31 December 2013	**26,734**	**236**	**2,188**	**29,158**	**-**	**29,158**

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

Statements of financial position

$millions	Note	Unaudited 6 months as at 31 Dec 2013	Unaudited 6 months as at 31 Dec 2012	Audited 12 months as at 30 Jun 2013
ASSETS				
Current assets				
Cash and cash equivalents (excluding bank overdrafts)		342	308	336
Receivables and prepayments		242	264	275
Other financial assets		333	311	331
Derivative financial instruments	6	2	-	4
Inventories		18	19	18
Non-current assets held-for-sale		32	24	42
Total current assets		**969**	**926**	**1,006**
Non-current assets				
Receivables and prepayments		104	117	97
Other financial assets		92	82	86
Derivative financial instruments	6	178	37	75
Property, plant and equipment	7	34,507	33,894	34,212
Intangible assets		415	359	403
Biological assets		2	4	2
Investment property		433	371	421
Investment in associates and jointly-controlled entities	8	751	743	753
Total non-current assets		**36,482**	**35,607**	**36,049**
Total assets		**37,451**	**36,533**	**37,055**
LIABILITIES				
Current liabilities				
Employee entitlements		75	77	71
Payables and accruals		393	436	539
Borrowings	9	1,200	927	1,290
Derivative financial instruments	6	21	12	13
Tax payable	11	-	8	10
Provisions	10	71	105	94
Total current liabilities		**1,760**	**1,565**	**2,017**
Non-current liabilities				
Employee entitlements		6	7	6
Payables and accruals		31	10	26
Borrowings	9	4,938	4,568	4,594
Derivative financial instruments	6	162	370	215
Provisions	10	393	412	394
Deferred tax liabilities	11	1,003	883	975
Total non-current liabilities		**6,533**	**6,250**	**6,210**
Total liabilities		**8,293**	**7,815**	**8,227**
Net assets		**29,158**	**28,718**	**28,828**
EQUITY				
Contributed equity		26,734	26,315	26,734
Accumulated funds		236	182	(58)
Reserves		2,188	2,221	2,152
Total ratepayer equity		**29,158**	**28,718**	**28,828**
Non-controlling interest		-	-	-
Total equity		**29,158**	**28,718**	**28,828**

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

Statements of cash flows

$millions	Unaudited 6 months to 31 Dec 2013	Unaudited 6 months to 31 Dec 2012	Audited 12 months to 30 Jun 2013
Cash flows from operating activities			
Receipts from customers, rates, grants and other services	1,589	1,500	2,879
Interest received	5	4	18
Dividends received	24	20	42
Payments to suppliers and employees	(1,026)	(1,085)	(2,047)
Interest paid	(181)	(151)	(320)
Net cash inflow from operating activities	**411**	**288**	**572**
Cash flows from investing activities			
Advances to related parties	-	(14)	(17)
Sale of property, plant and equipment, investment property and intangible assets	5	8	18
Purchase of property, plant and equipment, investment property and intangible assets	(684)	(636)	(1,315)
Equity investment in subsidiaries and associates	-	(1)	(4)
Acquisition of other financial assets	1	(19)	(10)
Proceeds from sale of other financial assets	25	12	32
Advances to external parties	(4)	(5)	(6)
Net cash outflow from investing activities	**(657)**	**(655)**	**(1,302)**
Cash flows from financing activities			
Proceeds from borrowings	895	670	1,260
Repayment of borrowings *	(640)	(205)	(406)
Repayment of finance lease principal	(1)	(2)	(3)
Net cash inflow from financing activities	**254**	**463**	**851**
Net increase in cash and cash equivalents and bank overdrafts	**8**	**96**	**121**
Opening cash and cash equivalents and bank overdrafts	333	212	212
Closing cash and cash equivalents and bank overdrafts	**341**	**308**	**333**

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

The accompanying notes and review report 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 (the council) is a local authority domiciled in New Zealand governed by the Local Government Act 2002 and the Local Government (Auckland) Act 2009. The council's principal address is 1 Greys Avenue, Auckland Central, New Zealand.

The Auckland Council Group (the group) consists of the ultimate parent, the council and its subsidiaries, associates and jointly-controlled entities, including council-controlled organisations.

The primary objective of the group is to provide services to the Auckland community for social benefit rather than making a financial return. Accordingly, the council has designated itself and the group as public benefit entities (PBE) for the purposes of the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS PBE).

These interim financial statements are for the six months ended 31 December 2013 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 2013. They are prepared in accordance with New Zealand Generally Accepted Accounting Practice and they comply with *NZ IAS 34 (PBE): Interim Financial Reporting*. The financial results for the six month period ended 31 December 2013 are unaudited however have been the subject of a review by the auditors, pursuant to the External Reporting Board's *Statement of Review Engagement Standards, RS-1*.

2 Basis of preparation

Accounting policies

The accounting policies used to prepare these interim financial statements are consistent with those used as at 30 June 2013.

As a public sector public benefit entity, the group will be required to transition to the new public sector PBE Standards from 1 July 2014. The new standards are mainly based on International Public Sector Accounting Standards. The group will transition to the new standards in preparing its 30 June 2015 financial statements. Due to the change in the Accounting Standards Framework for PBEs, the External Reporting Board has effectively frozen the financial reporting requirements for PBEs. Accordingly, the suite of NZ IFRS PBE does not include any amendments to IFRS and new IFRSs issued subsequent to March 2011. The group is in the process of assessing the implications of the transition.

Accounting judgments, estimates and assumptions

The accounting judgments, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2013.

Comparative information

Some balances in statement of comprehensive income have been reclassified to achieve consistency with the disclosure in the current period.

3 Rates revenue

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

Rates revenue for the six months ended 31 December 2013 includes $80 million (31 December 2012: $76 million) of rates revenue received for instalments three and four.

Notes to the financial statements (unaudited)

4 Other revenue

Auckland Council holds a portfolio of unit trusts of $294 million (31 December 2012: $262 million) and listed shares of $29 million (31 December 2012: $28 million) totalling $323 million (31 December 2012: $290 million). This has been designated as fair value through surplus or deficit at inception of the council and realised and unrealised gains on these investments of $20 million were recognised as other revenue at 31 December 2013 (30 June 2013: $36 million).

At 31 December 2012, this was incorrectly categorised as an available-for-sale investment and the unrealised gain of $17 million was incorrectly disclosed as part of other comprehensive income. The 31 December 2012 comparative information has not been restated because the effect of the incorrect categorisation of the portfolio is not considered material.

5 Net other gains and losses

Other gains and losses comprise:

$millions	6 months to 31 Dec 2013	6 months to 31 Dec 2012	12 months to 30 Jun 2013
Reversal of previously recognised impairment	-	26	25
Net increase in fair value of investment property	7	-	29
Net realised gain on available-for-sale financial assets	-	-	1
Net unrealised increase/(decrease) in financial assets held at fair value through surplus or deficit *	179	(15)	157
Net loss on disposal of property, plant and equipment and intangible assets	(12)	-	(7)
Net loss on revaluation of property, plant and equipment	(2)	-	(435)
Impairment of investment in associates and jointly-controlled entities	(1)	-	-
Total net other gains/(losses)	**171**	**11**	**(230)**

* These relate to fair value movements in interest rate derivatives.

6 Derivative financial instruments

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.

Notes to the financial statements (unaudited)

6 Derivative financial instruments (continued)

The notional values of derivative financial instruments at the reporting date are:

$millions	6 months to 31 Dec 2013	6 months to 31 Dec 2012	12 months to 30 Jun 2013
Assets			
Interest rate swaps			
Cash flow hedge	658	200	522
Fair value through surplus or deficit	4,384	1,073	2,315
Forward foreign currency contracts			
Cash flow hedge	1	-	-
Fair value through surplus or deficit	202	-	3
Total assets	**5,245**	**1,273**	**2,840**
Liabilities			
Interest rate swaps			
Cash flow hedge	631	582	676
Fair value through surplus or deficit	2,560	4,129	3,077
Forward foreign currency contracts			
Cash flow hedge	273	360	341
Fair value through surplus or deficit	2	1	109
Total liabilities	**3,466**	**5,072**	**4,203**

The table above includes forward start interest rate swaps with a notional value of $2,628 million (31 December 2012: $2,467 million; 30 June 2013: $2,700 million).

In addition, there are cross currency interest rate swaps with a notional value of $256 million included in interest rate swap assets (31 December 2012: $238 million; 30 June 2013: $295 million) and swaps with a notional value of $521 million included in interest rate swap liabilities (31 December 2012: nil; 30 June 2013: $219 million).

7 Property, plant and equipment

$millions	6 months to 31 Dec 2013	6 months to 31 Dec 2012	12 months to 30 Jun 2013
Additions	649	1,033	1,696
Disposals and transfers to non-current assets held-for-sale	(17)	(30)	(81)
Deconsolidation of Counties Manukau Pacific Trust	-	(33)	(33)

For all property, plant and equipment asset classes there have been no indicators of significant changes in fair value and carrying values do not differ materially from fair value at 31 December 2013.

The group is currently projecting property values to 30 June 2014. It is possible that operational land and buildings and restricted land and buildings will be revalued at 30 June 2014.

Notes to the financial statements (unaudited)

8 Investment in associates and jointly-controlled entities

The following changes have occurred in the group's investments in associates and jointly-controlled entities during the six months to 31 December 2013:

Name of entity	Principal activity	Date of change	Percentage ownership (per cent) 6 months to 31 Dec 2013	6 months to 31 Dec 2012	12 months to 30 Jun 2013	Relationship
New Zealand Food Innovation Auckland Limited	Promote and support food innovation	1 August 2013	33.3	100	100	Jointly-controlled entity of Auckland Tourism, Events and Economic Development
United Containers Limited	Container depot operator	3 October 2013	-	27.5	27.5	Former associate of Ports of Auckland Limited

The impact of the changes to the group's investments in other entities is not significant to the individual balances or results of operations.

9 Borrowings

$millions	6 months to 31 Dec 2013	6 months to 31 Dec 2012	12 months to 30 Jun 2013
Borrowings current	1,200	927	1,290
Borrowings non-current	4,938	4,568	4,594
Total borrowings	6,138	5,495	5,884
Less cash and cash equivalents (excluding bank overdrafts)	(342)	(308)	(336)
Net borrowings	**5,796**	**5,187**	**5,548**

The group's total borrowings at 31 December 2013 are $6,138 million (31 December 2012: $5,495 million; 30 June 2013: $5,884 million). To provide certainty of future interest payments, the group has actively entered into both medium and long term interest rate swaps.

Borrowings have increased by $254 million compared with 30 June 2013. The majority of this increase has been in the form of a $297 million New Zealand dollar equivalent foreign fixed rate bond issue ($1.4 billion Norwegian Kroner) and a $250 million floating rate note issue in December 2013, $165 million of Local Government Funding Agency borrowing and $42 million of government debt borrowing. This has been offset by repayments totalling $510 million. All foreign currency borrowings are hedged back into New Zealand dollars.

The maturity profile of the group's borrowings has lengthened, with approximately 41 per cent maturing within three years (31 December 2012: 45 per cent; 30 June 2013: 51 per cent), 32 per cent maturing between three and seven years (31 December 2012: 38 per cent; 30 June 2013: 29 per cent) and 27 per cent maturing beyond seven years (31 December 2012: 17 per cent; 30 June 2013: 21 per cent).

There were no defaults or breaches on any borrowing arrangement during the period (31 December 2012: nil; 30 June 2013: nil).

10 Provisions

There have been no material changes in provisions between 30 June 2013 and 31 December 2013.

Notes to the financial statements (unaudited)

11 Income tax

Auckland Council and its subsidiary companies have formed a consolidated group for income tax purposes from 1 July 2013.

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

$millions	6 months to 31 Dec 2013	6 months to 31 Dec 2012	12 months to 30 Jun 2013
Surplus after tax	**336**	**478**	**246**
Add/(less) non-cash items:			
Depreciation and amortisation	358	333	681
Net unrealised increase/(decrease) in financial assets held at fair value through surplus or deficit	(179)	15	(157)
Net loss on revaluation of property, plant and equipment and intangible assets	2	-	435
Vested assets (non- Crown)	(71)	(57)	(95)
Vested assets (Crown)	-	(385)	(385)
Share of surplus in associates and jointly-controlled entities (net of dividends received)	(21)	-	(41)
Net increase in fair value of investment property	(7)	-	(29)
Other non-cash items	14	(14)	1
Other movements:			
Items classified as investing or financing activities	(4)	1	(40)
Less deferrals and accruals	(17)	(83)	(44)
Net cash inflow from operating activities	**411**	**288**	**572**

13 Capital commitments

There have been no material changes in capital commitments between 30 June 2013 and 31 December 2013.

14 Contingent liabilities

There have been no material changes in contingent liabilities between 30 June 2013 and 31 December 2013, including the group’s estimated obligation for weathertightness claims.

15 Related parties

There have been no significant transactions with related parties between 30 June 2013 and 31 December 2013.

Notes to the financial statements (unaudited)

16 Events after the reporting period

Return of capital from Auckland International Airport Limited

In February 2014, a special resolution was passed by the shareholders of Auckland International Airport Limited (AIAL) to return $454 million of capital to its shareholders and cancel 1 in 10 of its shares.

The group owns 22.4 per cent of shares in AIAL and is expected to receive a payment of approximately $102 million in April this year. This payment will be received in lieu of interim dividend.

Wynyard Quarter land contamination

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

The outcome of the court case will have reduced the fair value of the investment property held by AWDA but the impact is not significant for the group.

INDEPENDENT REVIEWER'S REPORT

TO THE READERS OF AUCKLAND COUNCIL AND GROUP'S CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

I have reviewed the consolidated interim financial statements on pages 5 to 14 using my staff and resources. The consolidated interim financial statements provide information about the financial performance and cash flows of the Auckland Council and its subsidiaries ("the Auckland Council Group") for the six months ended 31 December 2013 and its financial position as at 31 December 2013 and include the notes to the financial statements and the accounting policies set out on pages 9 to 14

Review Opinion

Based on my review, which is not an audit, nothing has come to my attention that causes me to believe that the consolidated interim financial statements on pages 5 to 14 do not:

- comply with generally accepted accounting practice; or
- fairly reflect the Auckland Council Group's financial position as at 31 December 2013 and the results of operations and cash flows for the six months ended on that date.

Basis of Review Opinion

I carried out the review in accordance with review engagement standards issued by the External Reporting Board. A review is limited primarily to enquiries of personnel and analytical procedures applied to the financial data, and thus provides less assurance than an audit. I have not performed an audit and, accordingly, I do not express an audit opinion.

Responsibilities of the Council

The Council is responsible for the preparation, in accordance with generally accepted accounting practice, of the consolidated interim financial statements which fairly reflect the financial position of the Auckland Council Group as at 31 December 2013 and the results of operations and cash flows for the six months ended on that date.

My Responsibilities

I am responsible for reviewing the consolidated interim financial statements presented by the Council in order to provide to you an opinion, on the basis of the procedures performed, about whether anything has come to my attention that would indicate that the consolidated 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 2013 and the results of operations and cash flows for the six months ended on that date.

Independence

When carrying out my review, I followed my independence requirements which incorporate the independence requirements of the External Reporting Board.

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

- the audit of the Auckland Council and Group's financial statements, group activity statements, other information and local board reports contained in its annual report for the year ended 30 June 2013; and

- an assurance assignment in respect of information provided by Auckland Council and Group as required by the terms of its foreign borrowings programme.

These engagements are compatible with my independence requirements. 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 Auckland Council or any of its subsidiaries.

My review was completed on 28 February 2014 and my review opinion is expressed as at that date.

Lyn Provost
Controller and 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 Rules 5.2.3, 6.3.2 and11.1.1 (decision published by NZX on 10 December 2012); and
- Listing Rule 5.2.3 extension (decision published by NZX on 18 December 2013).

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 per cent of the number of securities of that class issued, with each member of the public holding at least a minimum holding. NZX granted the council a waiver from Listing Rule 5.2.3 to allow the council to have fewer than 500 bondholders who are members of the public for a period of one year from the quotation date of the initial offer of new bonds (which are part of a series of bond offers (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 recently been extended for a further year until December 2014 on the basis that it be disclosed in the council's half year and annual reports and NZX is notified of any material change to the spread of the bonds.

For the details of other waivers, please refer to the 30 June 2013 annual report.

Other exchange listings

In addition to NZX, the group also has foreign bonds listed on the following exchanges:
- Swiss Exchange
- Singapore Stock Exchange

One of these exchanges' requirements is to provide a summary of main differences between IFRS and NZ IFRS. The key differences are highlighted below.

Main differences between IFRS and NZ IFRS

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

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

Therefore the financial statements of the group have been prepared in accordance with NZ IFRS PBE. As the group has applied the modifications and exemptions in NZ IFRS PBE, it is not able to state compliance with IFRS.

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

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

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

IFRS 3 Business Combinations

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

The group was formed in November 2010 as a result of the amalgamation of eight predecessor Auckland local authorities. Without the scope exemption, the dissolution of the predecessor local authorities into the group would have been accounted for as a business combination applying the acquisition method. Under the acquisition method, the 'acquirer' would have been identified and all of the identifiable assets and liabilities of the 'acquired' predecessor local authorities assumed by the 'acquirer' would have been recognised at fair value as at the date of acquisition.

Under the exemption, all assets and liabilities of the predecessor local authorities were recognised by the group using the predecessor value of those assets and liabilities. The initial value at which those assets and liabilities were recognised by the group is deemed to be their 'cost' for accounting purposes.

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

Main differences between IFRS and NZ IFRS (continued)

IAS 16 Property, Plant and Equipment

Under *NZ IAS 16 (PBE) Property, Plant and Equipment* (NZ IAS 16 (PBE)), PBEs are permitted to account for revaluation increases and decreases on an asset class basis rather than on an asset by asset basis. This could result in lower operating results under IFRS where there is a decrease in the carrying value of an asset. This is because to the extent that there is sufficient revaluation surplus in respect of the same asset class (as opposed to the same asset), the group recognises a revaluation decrease in asset revaluation reserves. This is contrary to IFRS that requires asset revaluation decreases to be recognised in operating surplus except to the extent there is sufficient asset revaluation reserves surplus relating to the same asset.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

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

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

Under IAS 20 government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate. IAS 20, in the case of grants related to assets, results in setting up the grant as deferred income or deducting it from the carrying amount of the asset.

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

IAS 23 Borrowing Costs

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

The group's accounting policy is to expense all borrowing costs. As a consequence, borrowing costs on qualifying assets are expensed and are not built into the original costs or revaluations.

This difference between IAS 23 and NZ IAS 23 (PBE) results in the group's property, plant and equipment value, and subsequent depreciation expense, being lower than those would be under IFRS. In addition, there is higher interest expense in the periods in which construction costs are incurred.

IAS 36 Impairment of Assets

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

The group asset values may therefore be higher than under IFRS due to impairments not being required under NZ IAS 36 (PBE).

Asset values are not impacted by this difference.

Main differences between IFRS and NZ IFRS (continued)

Other differences between IFRS and NZ IFRS PBE

The following differences between NZ IFRS and NZ IFRS PBE are not significant to the group:

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

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

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

The following standards are not applicable to PBEs and therefore the group has not adopted these:

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

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

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

IFRS 13 Fair Value Measurement (IFRS 13) requires enhanced disclosures of fair value measurement. In addition, it introduces a new definition of fair value. It does not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. It is possible that the application of IFRS 13 may result in differences in the measurement of certain financial assets and liabilities compared to *IAS 39 Financial Instruments: Recognition and Measurement*.

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

ISSN 2253-3346 (Print)
ISSN 2253-3354 (Online)

Auckland Council
Te Kaunihera o Tāmaki Makaurau