

Results announcement

Results for announcement to the market		
Name of issuer	Auckland Council	
Reporting Period	12 months to 30 June 2022	
Previous Reporting Period	12 months to 30 June 2021	
	Amount (000s)	Percentage change
Revenue from continuing operations (excluding other gains/(losses))	\$5,676,519 ¹	7%
Total revenue	\$5,676,519 ¹	7%
Net profit/(loss) from continuing operations	\$1,723,777 ²	-6%
Total net profit/(loss)	\$1,723,777 ²	-6%
A brief explanation of any of the figures above necessary to enable the figures to be understood	¹ Revenue from continuing operations and total revenue excluding other gains ² Net profit/(loss) from continuing operations and net profit/(loss) above are shown after tax, before other comprehensive revenue/(expenditure). In the Auckland Council financial statements these are referred to as surplus/(deficit), rather than profit/(loss), as required by the Public Benefit Entity Accounting Standards. Results overview The Auckland Council Group's performance reflects the effects of the pressures anticipated in the group's Recovery Budget 2021-2031. Auckland spent most of the first half of the year in a government-imposed lockdown after which restrictions were eased for most of the remainder of the year. The restrictions, and high levels of isolation, illness and caution resulted in lower use of public transport, fewer people attending events and using community facilities, which in turn impacted revenues. In addition to the direct COVID-19 impacts, more substantive economic pressures such as the supply chain delays, increased construction and other costs, labour shortages and increased interest rates all impacted on the group's results and ability to progress many capital projects. Group revenue was \$5.7 billion, an increase of \$361 million on the prior year. Average general rates increased by 5% and there was a 1.8% increase in the number of ratepayers, accounting for \$146 million of the overall revenue increase.	

	Vested assets increased \$206 million compared to the prior year. This is a non-cash item and is mainly due to the receipt of the Central Post Office renovations from City Rail Link Limited. Development in Auckland, particularly intensive housing development, increased related revenues by \$103 million compared to the prior year including infrastructure growth charges and revenue associated with new water supply connections (\$77 million increase), consenting and licences (\$15 million increase) and development contributions (\$11 million increase). There was a major drought in the prior year and water restrictions were in place for most of the year. Water restrictions were lifted in October 2021 resulting in an increase in usage of water and wastewater services, and in combination with a 7% increase in water charges, revenue from water and wastewater increased by \$52 million. The effects of the COVID-19 restrictions impacted the use of the group's services and facilities, reducing fees and user charges by \$85 million compared to the prior year. Specifically, • public transport patronage and parking remained below historical levels (\$65 million decrease) • temporary closures, physical distancing requirements and caution resulted in lower usage of the group's community facilities (\$12 million decrease) • fee revenue from events, shows and festivals decreased (\$8 million decrease). In addition, the group received less subsidies from the central government, with public transport subsidies from Waka Kotahi NZ Transport Agency being \$67 million less than in the prior year. The group increased total operating expenditure by \$320 million to \$4.7 billion. Employee benefits increased by \$88 million. This included annual salary increases, an increase in the number of full-time equivalent employees to support many of the group's capital and targeted rates programmes, support for areas of growth such as sustainability and digital services, and the effects of the tight labour market. Some of the increase was also due to more overtime worked in order to maintain physical distancing requirements when carrying out critical maintenance of water networks.
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	Professional services charges for outsourced works, legal services and other consultancy charges were \$73 million higher than the prior year of \$378 million due to supporting the increase in consenting volumes, environmental projects, legal cases including judicial reviews and progressing the Three Waters Reform. Depreciation and amortisation costs increased by \$67 million, as a direct result of the significant amount of capital investment that the group has made over several years to support growth in the region and help stimulate the economic recovery of Auckland. It also reflects the \$3 billion revaluation increase in assets at the end of the prior year. The group changed its policy for the accounting for Extension of Time costs incurred during Alert Level 4 lockdowns. This increased current year operating expenditure by \$25 million. Overall, there was a \$41 million increase in operating surplus before gains and losses to \$951 million. Included in net other gains and losses are unrealised mark-to-market gains of \$1,132 million (2021: mark-to-market gains of \$780 million) which arose from the group's interest rate hedging contracts. This non-cash movement was due to an increase in interest rates. After a deferred tax charge of \$37 million, the surplus after tax for the group was \$1,724 million, \$113 million less than the prior year. Total assets increased by \$9.7 billion to \$70.4 billion. This reflects an after-tax revaluation gain on assets of \$7.9 billion and capital investment of \$2.3 billion. The group funds capital investment through borrowings. During the year the group increased its net borrowings by \$757 million to \$11.1 billion. This resulted in a debt to revenue ratio of 257% which is below the group's prudential limit of 290% of group revenue. The group's credit ratings with S&P Global Ratings and Moody's Investor Services are AA and Aa2 respectively, both with a "stable" outlook.
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Authority for this announcement	
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Date of release through MAP	29 August 2022

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

Auckland Council Group
Unaudited Financial Statements
30 June 2022

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Auckland Council Group
Unaudited statement of comprehensive revenue and expenditure
For the year ended 30 June 2022

\$Million	Actual 2022	Actual restated*^ 2021
Revenue		
Rates	2,122	1,976
Fees and user charges	1,269	1,263
Grants and subsidies	793	837
Development and financial contributions	236	226
Other revenue	662	632
Vested assets	582	376
Finance revenue measured using effective interest method	11	5
Other finance revenue	1	-
Total revenue excluding other gains	5,676	5,315
Expenditure		
Employee benefits expense	1,051	963
Depreciation and amortisation*	1,073	1,006
Grants, contributions and sponsorship	219	162
Other operating expenses*	1,944	1,866
Finance costs	438	408
Total expenditure excluding other losses	4,725	4,405
Operating surplus before gains and losses	951	910
Net other gains	997	998
Share of net deficit in associates and joint ventures	(187)	(28)
Surplus before income tax	1,761	1,880
Income tax expense*	37	43
Surplus after income tax	1,724	1,837
Other comprehensive revenue/(expenditure)		
Net gain on revaluation of property, plant and equipment^	8,218	3,275
Tax on revaluation of property, plant and equipment	(298)	(263)
Movement in cash flow hedge reserve	6	5
Tax on movement in cash flow hedge reserve	(2)	-
Fair value movement on revaluation of financial assets held at fair value through other comprehensive revenue and expenditure	(22)	175
Total other comprehensive revenue	7,902	3,192
Total comprehensive revenue	9,626	5,029

* The comparatives have been restated to reflect a change in accounting policy. Refer to 'Software-as-a-service (SaaS) arrangements' in the Significant accounting policies section.

^ Prior year revaluation gains have increased by \$127 million to reflect a write-off of duplicated assets which date as far back as the amalgamation of Auckland's former territorial authorities and the regional council in 2010.

Auckland Council Group

Unaudited statement of financial position

As at 30 June 2022

\$Million	Actual 2022	Actual restated*^ 2021
Assets		
Current assets		
Cash and cash equivalents	229	300
Receivables and prepayments	665	554
Derivative financial instruments	1	2
Other financial assets	60	77
Inventories	57	50
Income tax receivable	2	4
Non-current assets held-for-sale	86	7
Total current assets	1,100	994
Non-current assets		
Receivables and prepayments	51	74
Derivative financial instruments	527	426
Other financial assets	2,049	2,075
Property, plant and equipment^	64,273	54,884
Intangible assets*	486	577
Investment property	729	704
Investment in associates and joint ventures	1,160	926
Other non-current assets	9	7
Total non-current assets	69,284	59,673
Total assets	70,384	60,667
Liabilities		
Current liabilities		
Bank overdraft	3	6
Payables and accruals	1,141	958
Employee benefits	112	107
Borrowings	994	1,413
Derivative financial instruments	3	37
Provisions	208	132
Total current liabilities	2,461	2,653
Non-current liabilities		
Payables and accruals	185	176
Employee benefits	5	5
Borrowings	10,369	9,274
Derivative financial instruments	637	1,678
Provisions	282	399
Deferred tax liabilities*	2,171	1,834
Total non-current liabilities	13,649	13,366
Total liabilities	16,110	16,019
Net assets	54,274	44,648
Equity		
Contributed equity^	26,693	26,693
Accumulated funds*^	5,812	4,088
Reserves^	21,769	13,867
Total equity	54,274	44,648

* The comparatives have been restated to reflect a change in accounting policy. Refer to 'Software-as-a-service (SaaS) arrangements' in the Significant accounting policies section.

^Prior year property, plant and equipment (\$57 million), contributed equity (\$39 million), accumulated funds (\$106 million) and reserves (\$88 million) have been adjusted to reflect a write-off of duplicated assets which date as far back as the amalgamation of Auckland's former territorial authorities and the regional council in 2010.

Auckland Council Group
Unaudited statement of changes in equity
For the year ended 30 June 2022

\$Million	Contributed equity	Accumulated funds	Reserves	Total equity
Balance as at 1 July 2020 restated**	26,693	2,299	10,627	39,619
Surplus after income tax	-	1,837	-	1,837
Other comprehensive revenue^	-	-	3,192	3,192
Total comprehensive revenue	-	1,837	3,192	4,902
Transfers (from)/to reserves	-	(48)	48	-
Balance as at 30 June 2021**	26,693	4,088	13,867	44,648
Balance as at 1 July 2021*	26,693	4,088	13,867	44,648
Surplus after income tax	-	1,724	-	1,724
Other comprehensive revenue	-	-	7,902	7,902
Total comprehensive revenue	-	1,724	7,902	9,626
Transfers (from)/to reserves^	-	-	-	-
Balance as at 30 June 2022	26,693	5,812	21,769	54,274

* The comparatives have been restated to reflect a change in accounting policy. Refer to 'Software-as-a-service (SaaS) arrangements' in the Significant accounting policies section.

^ Prior year contributed equity (\$39 million), accumulated funds (\$106 million) and reserves (\$88 million) have been adjusted to reflect a write-off of duplicated assets which date as far back as the amalgamation of Auckland's former territorial authorities and the regional council in 2010.

▲ The transfer of asset revaluation reserves nets off with the transfer of restricted equity for this financial year.

Auckland Council Group
Unaudited statement of cash flows
For the year ended 30 June 2022

\$Million	Actual 2022	Actual restated* 2021
Cash flows from operating activities		
Receipts from rates, grants and other services	5,124	4,988
Interest received	11	9
Dividends received	4	4
Payments to suppliers and employees*	(3,213)	(2,866)
Income tax (paid)/ refund	(8)	9
Interest paid	(459)	(439)
Net cash inflow from operating activities	1,459	1,705
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, investment property and intangible assets	74	170
Acquisition of property, plant and equipment, investment property and intangible assets*	(1,804)	(2,036)
Acquisition of other financial assets	(886)	(50)
Proceeds from sale of other financial assets	899	21
Investment in joint ventures	(428)	(395)
Proceeds from sale of businesses, net of cash acquired	17	-
Advances to external parties	(2)	(21)
Net cash outflow from investing activities	(2,130)	(2,311)
Cash flows from financing activities		
Proceeds from borrowings	3,524	2,502
Repayment of borrowings	(2,910)	(1,929)
Receipts from derivative financial instruments	1,092	76
Payments for derivative financial instruments	(1,100)	(44)
Repayment of finance lease principal	(3)	-
Net cash inflow from financing activities	603	605
Net decrease in cash and cash equivalents and bank overdraft	(68)	(1)
Opening cash and cash equivalents and bank overdraft	294	295
Closing cash and cash equivalents and bank overdraft	226	294

* The comparatives have been restated to reflect a change in accounting policy. Refer to 'Software-as-a-service (SaaS) arrangements' in the Significant accounting policies section.

Auckland Council Group

Unaudited statement of significant accounting policies

Basis of reporting

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

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

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

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

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

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

Basis of preparation

The financial statements have been prepared:

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

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the council, its council-controlled organisations (CCOs) and subsidiaries as at 30 June 2022.

CCOs and subsidiaries are entities controlled by the group. Control is achieved when the group has the power to govern the financial and operating policies. To establish control, the controlling entity presently has exercisable power to govern decision making to be able to benefit from the activities of the other entity.

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements from the date the group gains control until the date the group ceases to control the subsidiary.

The accounting policies of controlled entities are consistent with the policies adopted by the controlling entity, or if not, adjustments are made to the consolidated financial statements to bring alignment of subsidiaries with the group's accounting policies. All intra-group balances, transactions, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

PBE Combinations involving entities under common control

PBE Combinations involving entities under common control are accounted for by applying the modified pooling of interest method which involves the following:

- the assets and liabilities of the combining entities are reflected at their carrying amounts reported in the combined financial statements of the resulting entity
- licenses and similar rights granted by one combining operation to another combining operation will not be eliminated and continue to be recognised as an intangible asset
- tax forgiven as part of the terms of an amalgamation, if any, shall be derecognised prior to amalgamation
- employee benefits (or assets, if any) related to the combining shall be recognised in accordance with PBE IPSAS 39 Employee Benefits
- no adjustments are made to reflect the fair values on the date of combination, or recognise any new assets or liabilities
- no additional goodwill is recognised as a result of the combination
- any difference between the consideration paid/transferred and the equity "acquired" is reflected within the equity as merger reserve
- the statement of comprehensive revenue and expenditure and statement of cash flows reflect the results of the combining entities from the point when the combination took place.

Auckland Council Group

Unaudited statement of significant accounting policies(continued)

Significant subsidiaries

The significant subsidiaries in the group comprise:

Name	Principal activities and nature of relationship where there is no direct ownership	CCO	Percentage ownership %	
			2022	2021
Auckland Transport	Owns the public transport network and manages the transport infrastructure and services in Auckland. <i>*Auckland Transport is a body corporate with perpetual succession and is treated under the LGACA 2009 as if Auckland Council is its sole shareholder.</i>	Yes	100*	100*
Eke Panuku Development Auckland Limited (formerly Panuku Development Auckland Limited)	Facilitates the development and rejuvenation of urban locations including the Auckland waterfront. Optimises the council's property portfolio.	Yes	100	100
Ports of Auckland Limited	Owns and operates Auckland's port which provides container bulk cargo handling, freight hubs, cruise industry facilities, and other services.	No	100	100
Tātaki Auckland Unlimited Limited (formerly Auckland Unlimited Limited)	Manages projects for economic development, tourism and events promotion in the Auckland region.	Yes	100	100
Tātaki Auckland Unlimited Trust (formerly Regional Facilities Auckland)	Supports and promotes the arts, culture, heritage, leisure, sports and entertainment, and owns and manages the venues for these activities. <i>^ Tātaki Auckland Unlimited Trust is a charitable trust of which Auckland Unlimited Limited, a 100% owned subsidiary of Auckland Council, is the sole trustee.</i>	Yes	100^	100^
Watercare Services Limited	Provides water and wastewater services and owns and operates the water and wastewater infrastructure.	Yes	100	100

Significant restrictions

Despite Auckland Council's ability to control its subsidiaries, there are significant restrictions on the ability to access the assets of Tātaki Auckland Unlimited Trust and Watercare Services Limited.

- Tātaki Auckland Unlimited Trust - As Tātaki Auckland Unlimited Trust is a charitable trust, Auckland Council is unable to access its assets.
- Watercare Services Limited - In terms of the Local Government (Auckland Council) Act 2009 section 57, Auckland Council may not receive a dividend or distribution of surpluses from Watercare Services Limited.

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Change in accounting policy

Software-as-a-Service (SaaS) arrangements

In April 2021, the International Financial Reporting Interpretations Committee (IFRIC), a committee supporting profit-oriented reporting, published an agenda decision clarifying how configuration and customisation costs incurred in implementing SaaS should be accounted for.

The IFRIC concluded that SaaS arrangements are service contracts providing the customer with the right to access the SaaS provider's application software over the contract period. Costs incurred to configure or customise software in a cloud computing arrangement, can be recognised as intangible assets only if the activities create an intangible asset that the entity controls, and the intangible asset meets the recognition criteria.

Some of these costs incurred are for the development of software code that enhances or modifies, or creates additional capability to, existing on-premises systems and meets the definition of and recognition criteria for an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The useful lives are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

Costs that do not result in intangible assets are expensed as incurred unless they represent payment for future services to be received. In which case a prepayment is initially recognised and then expensed as those subsequent services are received.

The New Zealand Accounting Standards Board has not issued similar guidance, however, in the absence of a PBE standard specifically dealing with such costs, management considers the IFRIC decision relevant to the accounting for similar types of arrangements of the group in accordance with PBE IPSAS 31 *Intangible assets*.

The group revised its accounting policy in relation to configuration and customisation costs incurred in implementing SaaS arrangements from 1 July 2021 to be consistent with the IFRIC agenda decision. The group applied the change in accounting policy retrospectively and has restated comparative balances.

The impact of the change in accounting policy is that some of previously capitalised intangible assets no longer meet the criteria for capitalisation and have therefore been expensed.

Implementation of new and amended accounting standards

Amendments to PBE IPSAS 2 Cash Flow Statements

These amendments require additional disclosures that enable users of financial statements to evaluate cash and non-cash changes in liabilities arising from financial activities. It is effective for reporting periods on or after 1 January 2021. Adoption of these amendments did not result in a significant change.

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Standards issued but not yet effective

PBE IPSAS 41 Financial Instruments

PBE IPSAS 41 *Financial Instruments* was issued in March 2019. This standard supersedes PBE IFRS 9 *Financial Instruments*, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. Although the group has not assessed the effect of the new standard, it does not expect any significant changes as the requirements are similar to PBE IFRS 9.

PBE FRS 48 Service Performance Reporting

PBE FRS 48 Service Performance Reporting replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 1 January 2022. The group believes the application of PBE FRS 48 will not have any significant impact on its statement of performance as the group has well established service performance reporting processes.

Significant judgements and estimates

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

- property, plant and equipment
- derivative financial instruments
- provisions
- classification of joint arrangements

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Property, plant and equipment

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

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

Initial recognition and subsequent measurement

Property, plant and equipment is initially recognised at cost, unless acquired through a non-exchange transaction, in which case the asset is recognised at fair value at the date of acquisition. The cost of third party constructed assets generally comprises the sum of costs invoiced by the third party. The cost of self-constructed assets comprises purchase costs, time allocations and excludes, where material, any abnormal costs and internal surpluses.

Subsequent costs that extend or expand the asset's future economic benefits and service potential are capitalised. After initial recognition, certain classes of property, plant and equipment are revalued. Work in progress is recognised at cost less impairment, if any, and is not depreciated.

Useful lives

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

Asset class	Estimated useful life (years)	Asset class	Estimated useful life (years)
Infrastructure		Operational (continued)	
Land and road formation	Indefinite	Bus stations and shelters	10 to 60
Roads	3 to 100	Marinas	9 to 45
Water and wastewater	10 to 201	Rolling stock	5 to 35
Machinery	3 to 200	Wharves	5 to 100
Storm water	29 to 110	Works of art	Indefinite
Other infrastructure	3 to 87	Other operational assets	1 to 83
Operational		Restricted	
Land	Indefinite	Parks and reserves	Indefinite
Buildings	10 to 100	Buildings	5 to 100
Specialised sporting and cultural venues	3 to 100	Improvements	2 to 50
Train stations	7 to 60	Specified and cultural heritage assets	Indefinite

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Disposals

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

Impairment

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of property, plant and equipment exceeds its recoverable amount. Any impairment loss is recognised immediately in surplus or deficit unless the asset is revalued, in which case any impairment loss is treated as a revaluation decrease. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Assets are considered cash generating if their primary objective is to provide a commercial return. The value in use for cash-generating assets is the present value of expected future cash flows. For non-cash generating assets, value in use is determined using an approach based on a depreciated replacement cost.

Revaluation

Infrastructure assets (except land), restricted assets (except improvements and specified cultural and heritage assets) and operational assets (except other operational assets) undergo a full revaluation with sufficient regularity, and at least every five years to ensure that their carrying amounts do not differ materially from fair value. The carrying values of revalued assets are assessed annually to ensure that they do not differ materially from the assets' fair values. If there is a material difference, then those asset classes are revalued. Revaluations are accounted for on an asset class basis.

Net revaluation gains are recognised in other comprehensive revenue and expenditure and are accumulated in the asset revaluation reserve in equity for each class of asset. Revaluation losses that result in a debit balance in an asset class's revaluation reserve are recognised in surplus or deficit. Any subsequent gain on revaluation is recognised first in surplus or deficit up to the amount previously expensed and then recognised in other comprehensive revenue and expenditure.

The method used by the group in revaluing its property, plant and equipment, is depreciated replacement cost (DRC), except for operational land and buildings and works of art. DRC is calculated based on the replacement cost of the property, plant and equipment depreciated over their useful lives. This method takes into account the age and condition of the assets, estimated optimisation rates and estimated remaining useful lives of those assets. It is assumed that all asset classes have no residual value at the end of their useful lives.

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Revaluation (continued)

Operational land and buildings and works of art are revalued based on available market information relating to these assets.

The group uses two valuation processes – a full revaluation and a desktop valuation. The full revaluation process values each asset individually and involves physical inspection of selected assets at various sites to note aspects such as condition, use, replacement timing and asset optimisation. A desktop valuation involves the valuation of the portfolio as a whole, considering any changes in the condition of any specific assets. Fair value changes are determined using relevant indices such as Capital Goods Price Index published by Stats NZ Tatauranga Aotearoa or by reference to recent sales prices of representative assets, and assets are not physically inspected. This valuation method may be used where there are recent changes in the fair value of a class of assets and a fair value assessment indicates that a valuation may be required. Where a desktop valuation is undertaken, a full revaluation is required in the following reporting period.

Operational land and buildings, restricted land and buildings, water infrastructure (including water, wastewater and stormwater and machinery), specialised sporting and cultural venues and rolling stock underwent a revaluation as at 30 June 2022.

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Derivative financial instruments

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

Derivatives are classified as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivative assets and derivative liabilities are classified as current when the maturity is 12 months or less from balance date or as non-current when the maturity is more than 12 months from balance date.

Cash flow hedges

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

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

When a forecast transaction is no longer expected to occur, the cumulative gain or loss in cash flow hedge reserve is recognised immediately in the surplus or deficit.

When a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognised in other comprehensive revenue and expenditure are transferred to the initial cost of the carrying amount of the non-financial asset or liability.

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Provisions

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

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

Classification of joint arrangements

Investments in associates and joint ventures are accounted for using the equity method in the group financial statements. The investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the share of the surplus or deficit of the associate or joint venture after the date of acquisition. Distributions received reduce the carrying amount of the investment. Where necessary, adjustments are made to the financial statements of associates and joint ventures to bring their accounting policies in line with the group.

For all joint arrangements structured in separate vehicles, management must assess the substance of each joint arrangement to determine whether it is classified as a joint venture or joint operation. This assessment requires management to consider whether it has rights to the joint arrangement's net assets (in which case it is classified as a joint venture), or rights to and obligations for specific assets, liabilities, revenues and expenses (in which case it is classified as a joint operation). Factors management must consider include structure, legal form, contractual agreements and other facts and circumstances. On consideration of these factors, management has determined that all of its joint arrangements structured through separate vehicles give it rights to the net assets and has therefore classified them as joint ventures.

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Contingent liabilities

City Rail Link Limited (CRL)

CRL is a joint venture between the group and Central Government, established to build a 3.45km twin-tunnel underground rail link with two new stations below the Auckland city centre.

CRL paid \$4.1 million for COVID-19 claims by Link Alliance in the year ended 30 June 2022 and a total of \$13.7 million from commencement of the Alliance (July 2019 to 30 June 2022). CRL has received additional claims from Link Alliance for COVID-19 costs. These claims cover the period from 30 June 2020 to 31 December 2021 and are currently being reviewed by an independent estimator appointed by the Alliance participants. The claims are material and complex, and, until the independent estimator has completed their review, it is not possible to provide guidance on the quantum or the likely outcome of such claims. As a result, we are unable to make a reliable estimate in the financial statements. We anticipate settlement of the current claims in 2022/2023.

Judicial Review challenging Waka Kotahi New Zealand Transport Agency's (Waka Kotahi) approval of the 2021-24 National Land Transport Programme (NLTP)

The plaintiff, Movement, an alliance of national organisations supporting safe and accessible transport for all New Zealanders, has lodged a Statement of Claim for a Judicial Review challenging Waka Kotahi's approval of the 2021-24 NLTP for failure to give effect to Government Policy Statement on land transport. The hearing will take place on 3-5 October 2022, in the Wellington High Court. Movement is seeking to have the NLTP quashed and a direction issued for Waka Kotahi to reconsider the NLTP.

If the challenge is successful, there may be an impact on the approval of new funding applications and payments for already approved projects and programmes. Although considered unlikely, Auckland Transport may need to re-prioritise activities based on available funding until a new NLTP is developed, or alternative sources of funding are made available.

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Other disclosures

Three Waters Reform

In October 2021, the Government confirmed that it will introduce legislation to create four publicly owned water entities, and that the group's participation in the proposed reform will be mandatory. These will own and operate drinking water, wastewater and stormwater (three waters) services across New Zealand. The Department of Internal Affairs is tasked with the successful implementation of these reforms, and will work with the local government sector, iwi, water industry and other stakeholders to ensure a smooth transition to the new arrangements.

Subsequently, on 2 June 2022, the Government introduced the Water Services Entities Bill in the House of Representatives. After the first reading on 9 June 2022 the Bill was referred to the Finance and Expenditure Committee, which is to report back to the House of Representatives by 11 November 2022.

The Water Services Entities Bill proposes to create four publicly owned water services entities that would take on responsibility for delivering water services to a specific geographical area, from 1 July 2024.

Further clarification of the transition to the new water services entities is expected to be released in legislation later in 2022 and 2023.

Auckland's stormwater network is currently owned and operated by Auckland Council, and its drinking water and wastewater networks are owned and operated by Watercare Services Limited. High level guidance has been issued that outlines which assets would transfer to the new entity, however there is not yet enough clarity to be able to quantify the financial impacts on asset values, revenue and associated debt with any certainty. As at 30 June 2022, the total stormwater infrastructure assets were \$6,845 million, and Watercare's infrastructure assets were \$12,783 million. Not all of these assets may transfer although the majority will, and other non-infrastructure assets may also transfer. The fair values of these assets have not been adjusted to reflect the transfer of assets. Once the transfer has been legislated and details around the mechanism for the transfer of the water assets and any compensation has been established, the values of these assets may require adjustment.

Subsequent events

There are no events occurring subsequent to balance date that require disclosure.