

Results announcement

Results for announcement to the market		
Name of issuer	Auckland Council	
Reporting Period	12 months to 30 June 2021	
Previous Reporting Period	12 months to 30 June 2020	
	Amount (000s)	Percentage change
Revenue from continuing operations (excluding other gains/(losses))	\$5,314,403 ¹	3%
Total revenue	\$5,314,403 ¹	3%
Net profit/(loss) from continuing operations	\$1,858,588 ²	5,318%
Total net profit/(loss)	\$1,858,588 ²	5,318%
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. The Auckland Council Group's performance reflects the initial signs of recovery from COVID-19. The COVID-19 pandemic resulted in unexpected changes in the Auckland economy – demand for residential property increased, border closure caused supply chain challenges and the public continued to avoid face-to-face contact. These factors had a significant impact on the group. In addition, the drought resulted in significant investment in new water supplies as well as upgrades and maintenance to provide Auckland with a secure and healthy water supply. Group revenue was \$5.3 billion, an increase of \$147 million on the prior year, despite the unfavourable impacts of COVID-19 and the drought. Increased demand for property positively impacted all revenue types that are related to development, including infrastructure growth charges (\$112 million), development contributions (\$70 million) and regulatory revenue (\$10 million). Public transport patronage remained well below historical levels, however, Waka Kotahi NZ Transport Agency provided an \$86 million top-up subsidy to keep the transport network	

	operating. Fee revenue from events, shows and festivals decreased significantly because of COVID-19 lockdowns. Water revenues decreased as Aucklanders conserved water to assist with the drought response. The group reduced operating costs by \$29 million. Three areas where there was a strong focus on cost reduction were employee benefits, travel and consultancy costs. Employee benefits decreased by \$34 million compared to the prior year due to attrition, restructures and tight recruitment controls. Staff at Auckland Council and several council-controlled organisations took voluntary salary sacrifices. Legal and other consulting costs reduced by \$12 million and travel costs by \$2 million. These reductions were partly offset by higher depreciation and amortisation costs, which were a direct result of the significant amount of capital investment that the group has made over several years. Overall, there has been a \$176 million increase in operating surplus before gains and losses to \$928 million. Included in net other gains and losses are unrealised mark-to-market gains of \$882 million (2020: mark-to-market losses of \$755 million) which arose from our interest rate hedging contracts. This was due to the gradual increase in interest rates. After a tax charge of \$39 million, the surplus after tax for the group was \$1,859 million. Total assets increased by \$4.8 billion to \$60.8 billion. This reflects \$2.5 billion of capital investment, as well as revaluation gains and vested assets. Despite the significant capital investment, the group increased its net borrowings by a moderate \$474 million to \$10.4 billion. This resulted in a debt to revenue ratio of 258% which is within the group's 290% policy limit. 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	27 August 2021

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

Auckland Council Group Unaudited Financial Statements

30 June 2021

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Auckland Council Group

Unaudited statement of comprehensive revenue and expenditure

For the year ended 30 June 2021

\$million	Actual 2021	Actual 2020
Revenue		
Rates	1,976	1,877
Fees and user charges	1,263	1,316
Grants and subsidies	837	821
Development and financial contributions	226	156
Other revenue	632	494
Vested assets	376	494
Finance revenue measured using effective interest method	5	9
Other finance revenue	-	1
Total revenue excluding other gains	5,315	5,168
Expenditure		
Employee benefits	963	997
Depreciation and amortisation	1,020	963
Grants, contributions and sponsorship	162	148
Other operating expenses	1,834	1,864
Finance costs	408	444
Total expenditure excluding other losses	4,387	4,416
Operating surplus before gains and losses	928	752
Net other gains/(losses)	998	(628)
Share of net deficit in associates and joint ventures	(28)	(15)
Surplus before income tax	1,898	109
Income tax expense	39	74
Surplus after income tax	1,859	35
Other comprehensive revenue/(expenditure)		
Net gain on revaluation of property, plant and equipment	3,149	731
Tax on revaluation of property, plant and equipment	(263)	-
Movement in cash flow hedge reserve	5	-
Share of associates and joint ventures reserves	-	(146)
Reclassification of share of associates reserves	-	21
Fair value movement on revaluation of financial assets held at fair value through other comprehensive revenue and expenditure	175	164
Deferred tax written back to revaluation reserve on asset transfer	-	2
Total other comprehensive revenue	3,066	772
Total comprehensive revenue	4,925	807

Auckland Council Group

Unaudited statement of financial position

As at 30 June 2021

\$million	Actual 2021	Actual 2020
Assets		
Current assets		
Cash and cash equivalents	300	298
Receivables and prepayments	554	543
Derivative financial instruments	2	6
Other financial assets	77	88
Inventories	50	58
Income tax receivable	4	3
Non-current assets held-for-sale	7	127
Total current assets	994	1,123
Non-current assets		
Receivables and prepayments	74	58
Derivative financial instruments	426	641
Other financial assets	2,075	1,890
Property, plant and equipment	54,941	50,421
Intangible assets	651	684
Investment property	704	603
Investment in associates and joint ventures	926	565
Other non-current assets	8	6
Total non-current assets	59,805	54,868
Total assets	60,799	55,991
Liabilities		
Current liabilities		
Bank overdraft	6	3
Payables and accruals	958	883
Employee entitlements	107	127
Borrowings	1,413	1,093
Derivative financial instruments	37	5
Provisions	132	99
Total current liabilities	2,653	2,210
Non-current liabilities		
Payables and accruals	176	137
Employee entitlements	5	5
Borrowings	9,274	9,121
Derivative financial instruments	1,678	2,715
Provisions	399	416
Deferred tax liabilities	1,840	1,538
Total non-current liabilities	13,372	13,932
Total liabilities	16,025	16,142
Net assets	44,774	39,849
Equity		
Contributed equity	26,732	26,732
Accumulated funds	4,262	2,451
Reserves	13,780	10,666
Total equity	44,774	39,849

Auckland Council Group

Unaudited statement of changes in equity

For the year ended 30 June 2021

\$million	Contributed equity	Accumulated funds	Reserves	Total equity
Balance as at 1 July 2019	26,732	1,788	10,522	39,042
Surplus after income tax	-	35	-	35
Other comprehensive revenue	-	-	772	772
Total comprehensive revenue	-	35	772	807
Transfers to/(from) reserves	-	628	(628)	-
Balance as at 30 June 2020	26,732	2,451	10,666	39,849
Balance as at 1 July 2020	26,732	2,451	10,666	39,849
Surplus after income tax	-	1,859	-	1,859
Other comprehensive revenue	-	-	3,066	3,066
Total comprehensive revenue	-	1,859	3,066	4,925
Transfers to/(from) reserves	-	(48)	48	-
Balance as at 30 June 2021	26,732	4,262	13,780	44,774

Auckland Council Group

Unaudited statement of cash flows

For the year ended 30 June 2021

\$million	Actual 2021	Actual 2020
Cash flows from operating activities		
Receipts from rates, grants and other services	4,988	4,667
Interest received	9	14
Dividends received	4	34
Payments to suppliers and employees	(2,851)	(2,908)
Income tax refund/(paid)	9	1
Interest paid	(439)	(438)
Net cash inflow from operating activities	1,720	1,370
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, investment property and intangible assets	170	108
Acquisition of property, plant and equipment, investment property and intangible assets	(2,051)	(2,303)
Acquisition of other financial assets	(50)	(11)
Proceeds from sale of other financial assets	21	25
Investment in joint ventures	(395)	(258)
Advances to external parties	(21)	(58)
Net cash outflow from investing activities	(2,326)	(2,497)
Cash flows from financing activities		
Proceeds from borrowings	2,502	4,129
Repayment of borrowings	(1,929)	(2,966)
Receipts from derivative financial instruments	76	7
Payments for derivative financial instruments	(44)	(44)
Repayment of finance lease principal	-	5
Net cash inflow from financing activities	605	1,131
Net increase/(decrease) in cash and cash equivalents and bank overdraft	(1)	4
Opening cash and cash equivalents and bank overdraft	295	291
Closing cash and cash equivalents and bank overdraft	294	295

Auckland Council Group

Unaudited statement of significant accounting policies

For the year ended 30 June 2021

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, Auckland Council has designated itself and the group as public benefit entities (PBEs) and applies New Zealand Tier 1 PBE Accounting Standards. These standards are based on International Public Sector Accounting Standards (IPSAS), with amendments for the New Zealand environment.

Basis of preparation

The financial statements have been prepared:

- in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), the LGA 2002, the LGACA 2009 and the Local Government (Financial Reporting and Prudence) Regulations 2014 and comply with PBE Accounting Standards
- on a historical cost basis, except for certain financial instruments which have been measured at fair value, certain classes of property, plant and equipment and investment property which have been subsequently measured at fair value
- on a going concern basis and the accounting policies have been applied consistently throughout the period
- 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 2021.

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. In order to establish control, the controlling entity presently has exercisable power to govern decision making so as to be able to benefit from the activities of the other entity.

Auckland Council Group

Unaudited statement of significant accounting policies continued

For the year ended 30 June 2021

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

For the year ended 30 June 2021

Substantive subsidiaries

The substantive subsidiaries in the group comprise:

Name	Principal activities and nature of relationship where there is no direct ownership	CCO	Percentage ownership %	
			2021	2020
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	*	*
Auckland Unlimited Limited	Manages projects for economic development, tourism and events promotion in the Auckland region.	Yes	100	100
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
Regional Facilities Auckland	Supports and promotes the arts, culture, heritage, leisure, sports and entertainment, and owns and manages the venues for these activities. <i>*Regional Facilities Auckland is a charitable trust of which Auckland Unlimited Limited, a 100% owned subsidiary of Auckland Council, is the sole trustee.</i>	Yes	*	*
Watercare Services Limited	Provides water and wastewater services and owns and operates the water and wastewater infrastructure. <i>Watercare Services Limited is restricted by the LGACA 2009 section 57(1)(b) from paying any dividend or distributing any surplus directly or indirectly to Auckland Council.</i>	Yes	100	100

Auckland Council Group

Unaudited statement of significant accounting policies continued

For the year ended 30 June 2021

Significant restrictions

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

- Regional Facilities Auckland - As Regional Facilities Auckland 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.

Change in accounting policy

Change in frequency of revaluations of property, plant and equipment

From 1 July 2020, the group changed its accounting policy to revalue its property, plant and equipment held at fair value, at least every five years. This change in policy provides the group with the flexibility to revalue when it is appropriate, or when there is a material movement in fair value given the need to manage its finances prudently. The policy has been applied prospectively from the beginning of this financial year because it was not practicable to estimate the effects of applying the policy either retrospectively or prospectively from any earlier date. Accordingly, the adoption of the new policy has no effect on prior periods.

Implementation of new and amended accounting standards

Early adoption of PBE IPSAS 40 PBE Combinations

The group adopted PBE IPSAS 40 early. In accordance with its transitional provisions, the standard was required to be applied prospectively from 1 July 2020. The new standard supersedes PBE IFRS 3 Business Combinations. PBE IPSAS 40 has a broader scope than PBE IFRS 3 since it covers accounting for both acquisitions and amalgamations. A PBE combination is the bringing together of separate operations into one public benefit entity, which might occur by mutual agreement or by compulsion (for example, by legislation).

Identifying a PBE Combination

PBE IPSAS 40 requires an entity to determine whether a transaction or event is a PBE Combination, which requires that the assets and liabilities constitute an operation. PBE IPSAS 40's definition of an "operation" is similar to the definition of a "business" under PBE IFRS 3, which includes three elements: input, process and output. Similar to PBE IFRS 3, to qualify as an operation, two essential elements are required – inputs and processes applied to those inputs, which together are or will be used to create outputs.

Auckland Council Group

Unaudited statement of significant accounting policies continued

For the year ended 30 June 2021

Early adoption of PBE IPSAS 40 PBE Combinations (continued)

Classification of a PBE Combination

A PBE Combination can be classified as an amalgamation or an acquisition.

An amalgamation is where no party to a PBE combination gains control of one or more operations as a result of the combination or, if one party gains control, where the economic substance of the PBE combination based on evidence relating to the consideration, the decision-making process and other matters is that of an amalgamation. A “resulting entity” shall account for the amalgamation by applying the modified pooling of interests method.

An acquisition is where one party to a PBE combination gains control of one or more operations as a result of the combination and the economic substance is not that of an amalgamation. The acquisition method of accounting is applied.

The modified pooling of interests method requires recognition and measurement of the assets, liabilities and non-controlling interests at their carrying amounts, recognition and measurement of any other adjustments (e.g. to align accounting policies) within net assets/equity. An amalgamation does not give rise to goodwill.

The acquisition method of accounting is consistent with PBE IFRS 3 and generally requires the recognition and measurement of assets and liabilities at fair value and the recognition of goodwill or gain or loss from acquisition.

The group adopted this standard early to facilitate the merger of Auckland Tourism Events and Economic Development Limited (ATEED) and Regional Facilities Auckland Limited (RFAL) in order to apply the modified pooling of interests method for amalgamation. The adoption of PBE IPSAS 40 did not result in any significant impact on the group financial statements.

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 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.

Auckland Council Group

Unaudited statement of significant accounting policies continued

For the year ended 30 June 2021

Standards issued but not yet effective (continued)

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.

Deferral of compliance with IFRIC agenda decision

Configuration and customisation costs for Software-as-a-Service (SaaS) arrangements

In April 2021, the IFRS Interpretations Committee (IFRIC), a committee supporting profit-oriented reporting, published an agenda decision clarifying how configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) should be accounted for. The IPSASB has not issued similar guidance, however, in the absence of a PBE standard specifically dealing with such costs, management considers the IFRIC decision is relevant to the accounting for intangible assets of the group.

The decision clarifies that certain configuration and customisation activities that are undertaken in implementing SaaS arrangements may give rise to a separate asset where the customer controls that asset. In such instances, these costs are capitalised as per the requirements of PBE IPSAS 31 Intangible Assets. In all other cases, these costs are expensed as the services are received over the term of the SaaS contract. The clarification requires careful consideration of the nature of costs that are incurred in implementing SaaS arrangements.

Over several years, the group has made certain judgements about most costs related to SaaS arrangements. Accordingly, the group will review these accounting judgements and make any required adjustments retrospectively as a change in accounting policy. As at 30 June 2021, the group has \$98.6 million of costs associated with numerous SaaS arrangements. Due to the quantum of the costs involved and the complexity of the work undertaken across multiple workstreams to implement SaaS solutions, the group expects a significant amount of work will be required to review those costs. With the IFRIC agenda decision having been made so close to the financial year end, management is unable to complete the assessment prior to the finalisation of these financial statements. Management will complete the assessment and record any adjustments by 31 December 2021.

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

For the year ended 30 June 2021

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 40
Roads	3 to 110	Marinas	9 to 45
Water and wastewater	10 to 201	Rolling stock	5 to 35
Machinery	3 to 200	Wharves	4 to 100
Storm water	15 to 150	Works of art	Indefinite
Other infrastructure	3 to 80	Other operational assets	1 to 60
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	6 to 60	Specified and cultural heritage assets	Indefinite

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.

Auckland Council Group

Unaudited statement of significant accounting policies continued

For the year ended 30 June 2021

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.

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

Operational land and buildings, wharves, restricted parks, reserves and buildings, and works of art underwent a full revaluation as at 30 June 2021.

Auckland Council Group

Unaudited statement of significant accounting policies continued

For the year ended 30 June 2021

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.

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 finance cost in surplus or deficit.

Auckland Council Group

Unaudited statement of significant accounting policies continued

For the year ended 30 June 2021

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 the group 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.

Auckland Council Group

Unaudited notes to the financial statements

For the year ended 30 June 2021

Subsequent events

At 11:59pm on Tuesday 17 August 2021 Auckland entered COVID-19 Alert Level 4 which locked down all but essential services. All the group's construction sites and community facilities were closed with minor exceptions. The largest impact is on public transport and parking. As in prior years, the group expects to receive capital project extension-of-time variation claims from contractors, however the quantum is dependent on the length and extent of the lockdown. Although the financial impact is expected to be non-trivial, the Recovery Budget 2022-2032 anticipated ongoing COVID-19 disruption for the next three years, allowances were made for the expected financial impact and there is sufficient debt headroom to manage this event. This change in the COVID-19 alert level had no impact on the financial statements for the year ended 30 June 2021.