

Results announcement

Results for announcement to the market		
Name of issuer	Auckland Council	
Reporting Period	12 months to 30 June 2020	
Previous Reporting Period	12 months to 30 June 2019	
	Amount (000s)	Percentage change
Revenue from continuing operations (excluding other gains/(losses))	\$5,168,275 ¹	6%
Total revenue	\$5,168,275 ¹	6%
Net profit/(loss) from continuing operations	\$43,803 ²	-75%
Total net profit/(loss)	\$43,803 ²	-75%
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 effect of prudent financial management in the face of the COVID-19 pandemic. The group recorded revenue of \$5.2 billion, a moderate increase of \$289 million on the prior year, despite the unfavourable COVID-19 impacts in the fourth quarter. The first nine months of the year showed strong growth in public transport patronage, with an associated increase in Waka Kotahi NZ Transport Agency operating subsidies. Subsidies for capital works, particularly related to the development of downtown and the ferry basin, were also significantly higher than in the prior year. High water usage due to a dry summer and an increase in consenting revenue from increased complexity of consents contributed to higher water charges and consenting revenue compared to the prior year.	

	During the prior year the group implemented policy changes to support housing developers increase housing stock in Auckland. These policy changes, which allow developers to delay development contributions, contributed to \$22 million less revenue compared to the prior year. The COVID-19 pandemic and the severity of the drought significantly affected the final quarter. The group lost \$92 million in revenue due to the closure of most of the group's community facilities, physical distancing requirements on public transport, reduced volumes at the port and strict water restrictions. Operating costs increased by \$319 million compared to the prior year mainly as a result of increases in employee benefits of \$86 million, \$57 million in increases in provisions, including the provision for remediation of weathertightness and associated building defects, \$60 million increase in repairs, maintenance and asset operating costs and \$24 million for the write-down of capital projects costs including the Penlink and Mill Road projects which are due to be transferred to Waka Kotahi NZ Transport Agency. The large capital investment programme also drove an increase in depreciation costs of \$41 million. Overall, there has been a \$30 million decrease in operating surplus before gains and losses to \$761 million. Net other gains and losses include a one-off gain of \$230 million on discontinuing equity accounting of Auckland International Airport Limited (AIAL). This is because the group did not participate in an equity raise in April 2020 which resulted in a dilution of its holding, and consequently an inability to influence AIAL's financial and operating policies. The investment is now accounted for at market value. Also included are mark-to-market losses of \$755 million which arose from our interest rate hedging contracts due to the continuing decline in interest rates, and unrealised foreign exchange losses of \$86 million on the revaluation of offshore debt. After a tax charge of \$74 million, the surplus after tax for the group was \$44 million. The significant increase in capital spend combined with a decline in development contribution revenue and working capital increased the group's reliance on borrowings, increasing net debt by \$1.3 billion to \$9.9 billion. This resulted in a debt to revenue ratio of 264% which is within the group's 270% policy limit.
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	Total assets increased by \$3.1 billion to \$56 billion. This reflects a \$2.6 billion capital investment for the year which was \$520 million more than the prior year. The group's credit ratings with S&P Global Ratings and Moody's Investor Services remain at AA and Aa2 respectively, both with a "stable" outlook.
Authority for this announcement	
Name of person authorised to make this announcement	Kevin Ramsay, Acting Group Chief Financial Officer
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Date of release through MAP	28 September 2020

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

Auckland Council Group

Unaudited statement of comprehensive revenue and expenditure

For the year ended 30 June 2020

\$million	Actual 2020	Actual 2019
Revenue		
Rates	1,877	1,790
Fees and user charges	1,316	1,333
Grants and subsidies	821	612
Development and financial contributions	156	178
Other revenue	494	464
Vested assets	494	486
Finance revenue measured using effective interest method	9	15
Other finance revenue	1	1
Total revenue excluding other gains	5,168	4,879
Expenditure		
Employee benefits	997	911
Depreciation and amortisation	963	922
Grants, contributions and sponsorship	148	144
Other operating expenses	1,855	1,633
Finance costs	444	478
Total expenditure excluding other losses	4,407	4,088
Operating surplus before gains and losses	761	791
Net other losses	(628)	(651)
Share of net (deficit)/surplus in associates and joint ventures	(15)	93
Surplus before income tax	118	233
Income tax expense	74	58
Surplus after income tax	44	175
Other comprehensive revenue/(expenditure)		
Net gain on revaluation of property, plant and equipment	731	41
Tax on revaluation of property, plant and equipment	-	(11)
Movement in cash flow hedge reserve		(4)
Share of associates and joint ventures reserves	(146)	7
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	164	-
Deferred tax written back to revaluation reserve on asset transfer	2	27
Total other comprehensive revenue	772	60
Total comprehensive revenue	816	235

Auckland Council Group

Unaudited statement of financial position

As at 30 June 2020

\$million	Actual 2020	Actual 2019
Assets		
Current assets		
Cash and cash equivalents	298	294
Receivables and prepayments	543	475
Derivative financial instruments	6	3
Other financial assets	88	56
Inventories	58	48
Income tax receivable	3	-
Non-current assets held-for-sale	127	59
Total current assets	1,123	935
Non-current assets		
Receivables and prepayments	58	41
Derivative financial instruments	641	441
Other financial assets	1,890	131
Property, plant and equipment	50,421	48,196
Intangible assets	684	640
Investment property	603	629
Investment in associates and joint ventures	565	1,850
Other non-current assets	6	10
Total non-current assets	54,868	51,938
Total assets	55,991	52,873
Liabilities		
Current liabilities		
Bank overdraft	3	3
Payables and accruals	883	869
Employee entitlements	127	106
Borrowings	1,093	1,172
Derivative financial instruments	5	9
Provisions	90	171
Total current liabilities	2,201	2,330
Non-current liabilities		
Payables and accruals	137	106
Employee entitlements	5	5
Borrowings	9,121	7,786
Derivative financial instruments	2,715	1,839
Provisions	416	299
Deferred tax liabilities	1,538	1,466
Total non-current liabilities	13,932	11,501
Total liabilities	16,133	13,831
Net assets	39,858	39,042
Equity		
Contributed equity	26,732	26,732
Accumulated funds	2,460	1,788
Reserves	10,666	10,522
Total equity	39,858	39,042

Auckland Council Group

Unaudited statement of changes in equity

For the year ended 30 June 2020

\$million	Contributed equity	Accumulated funds	Reserves	Total equity
Balance as at 1 July 2018	26,732	1,667	10,403	38,802
Adjustment on adoption of PBE IFRS 9	-	5	-	5
Adjusted balance as at 1 July 2018	26,732	1,672	10,403	38,807
Surplus after income tax excluding PBE IFRS 9 adjustment above	-	175	-	175
Other comprehensive revenue	-	-	60	60
Total comprehensive revenue excluding PBE IFRS 9 adjustment above	-	175	60	235
Transfers (from)/to reserves	-	(59)	59	-
Balance as at 30 June 2019	26,732	1,788	10,522	39,042
Balance as at 1 July 2019	26,732	1,788	10,522	39,042
Surplus after income tax	-	44	-	44
Other comprehensive revenue	-	-	772	772
Total comprehensive revenue	-	44	772	816
Transfers to/(from) reserves	-	628	(628)	-
Balance as at 30 June 2020	26,732	2,460	10,666	39,858

Auckland Council Group

Unaudited statement of cash flows

For the year ended 30 June 2020

\$million	Actual 2020	Actual 2019
Cash flows from operating activities		
Receipts from rates, grants and other services	4,667	4,328
Interest received	14	17
Dividends received	34	65
Payments to suppliers and employees	(2,908)	(2,682)
Income tax refund/(paid)	1	(14)
Interest paid	(438)	(466)
Net cash inflow from operating activities	1,370	1,248
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, investment property and intangible assets	108	168
Acquisition of property, plant and equipment, investment property and intangible assets	(2,303)	(1,899)
Acquisition of other financial assets	(11)	(18)
Proceeds from sale of other financial assets	25	132
Investment in joint ventures	(258)	(65)
Advances to external parties	(58)	(1)
Proceeds from community loan repayments	-	-
Net cash outflow from investing activities	(2,497)	(1,683)
Cash flows from financing activities		
Proceeds from borrowings	4,129	2,432
Repayment of borrowings	(2,966)	(2,282)
Receipts from derivative financial instruments	7	35
Payments for derivative financial instruments	(44)	(69)
Repayment of finance lease principal	5	-
Net cash inflow from financing activities	1,131	116
Net increase/(decrease) in cash and cash equivalents and bank overdraft	4	(319)
Opening cash and cash equivalents and bank overdraft	291	610
Closing cash and cash equivalents and bank overdraft	295	291

Auckland Council Group

Unaudited statement of significant accounting policies

For the year ended 30 June 2020

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); and,
- Local Government (Rating) Act 2002.

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

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

The Auckland Council Group (the group) consists of Auckland 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 Auckland Council and its CCOs and subsidiaries as at 30 June 2020.

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 2020

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.

The substantive subsidiaries within the group comprise the following:

Name	Principal activities and nature of relationship where there is no direct ownership	CCO	Percentage ownership %	
			2020	2019
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 Tourism, Events and Economic Development 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 Regional Facilities Auckland 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 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 2020

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.

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 and financial guarantees
- Classification of joint arrangements

On 11 March 2020 the outbreak of COVID-19 was declared a global pandemic by the World Health Organisation. New Zealand entered COVID-19 Alert Level 4 on 26 March 2020 which entailed a full lockdown of all social and economic activity except for essential services. Lockdown restrictions were eased gradually until 8 June 2020 when physical distancing measures came to an end with COVID-19 Alert Level 1. The lockdown restrictions and ensuing financial instability have had a significant impact on the group's significant judgements and estimates, which is detailed below. The full impact on the group will be disclosed in the annual report.

Implementation of new and amended standards

PBE Standards on interests in other entities:

- PBE IPSAS 34 *Separate Financial Statements*
- PBE IPSAS 35 *Consolidated Financial Statements*
- PBE IPSAS 36 *Investments in Associates and Joint Ventures*
- PBE IPSAS 37 *Joint Arrangements*
- PBE IPSAS 38 *Disclosure of Interests in Other Entities*.

The New Zealand Accounting Standards Board issued these standards to incorporate the equivalent standards issued by the International Public Sector Accounting Standards Board into PBE Standards. These standards replace PBE IPSAS 6 *Consolidated and Separate Financial Statements*, PBE IPSAS 7 *Investments in Associates* and PBE IPSAS 8 *Interests in Joint Ventures*.

Auckland Council Group

Unaudited statement of significant accounting policies continued

For the year ended 30 June 2020

Implementation of new and amended standards continued

The group adopted these standards with effect from 1 July 2019. The key changes introduced by the new standards and the impact on the group are as follows:

- (a) Control: The new standards introduce an amended definition of control including extensive guidance on this definition, which if applicable, result in consolidation of entities that are not owned by virtue of shareholding.

The adoption of new standards has not resulted in the consolidation of additional entities.

- (b) Investment entities: The standards introduce the concept of an “investment entity”. They exempt investment entities from consolidating controlled entities and instead, require investment entities to recognise controlled entities at fair value through surplus or deficit.

These requirements do not apply to the group, as neither the council nor any of its controlled entities meet the definition of an investment entity.

- (c) Joint arrangements: PBE IPSAS 37 introduces a new classification of joint arrangements, sets out the accounting requirements for each type of arrangement (joint operations and joint ventures), and removes the option of using the proportionate consolidation method.

The group has reclassified its interests in jointly controlled entities as joint ventures under the new standards and will continue to account for these interests using the equity method of accounting.

- (d) Disclosures of interests in other entities: The standards require PBEs to disclose information of their interests in other entities, including some additional disclosures that were not previously required under PBE IPSAS 6, 7 and 8.

This will result in additional disclosures for the group regarding the group’s controlled entities, associates and joint arrangements.

Impairment of Revalued Assets (Amendments to PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 *Impairment of Cash-Generating Assets*)

The amendments change the scope of PBE IPSAS 21 and PBE IPSAS 26 to include assets measured at revalued amounts under the revaluation model in PBE IPSAS 17 *Property, Plant and Equipment* and PBE IPSAS 31 *Intangible Assets* (“revalued assets”). As a result of the amendments, revalued assets are subject to the same impairment assessment requirements as assets that are measured using the cost model. Consequential amendments were also made to PBE IPSAS 17 and PBE IPSAS 31.

Other than extending the scope of the group’s accounting policy on impairment to include revalued assets, there have been no other changes to the group’s financial statements as a result of these amendments. The adoption of these amendments resulted in an immaterial impact on the financial statements.

Auckland Council Group

Unaudited statement of significant accounting policies continued

For the year ended 30 June 2020

PBE IPSAS 39 *Employee Benefits*

PBE IPSAS 39 replaces the previous standard on employee benefits, PBE IPSAS 25 *Employee Benefits*. PBE IPSAS 39 is based on IPSAS 39, which was issued by the IPSASB to update its standards for the amendments to IAS 19 by the IASB during the 2011-2015 period.

The new standard:

- amends the short-term employee benefit definition to be those employee benefits that are expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service
- removes the option to defer the recognition of certain actuarial gains and losses arising from defined benefit plans (the “corridor approach”)
- eliminates some of the presentation options for actuarial gains and losses arising from defined benefit plans
- introduces the net interest approach, which is to be used when determining the defined benefit cost for defined benefit plans
- structures the disclosures for defined benefit plans according to explicit disclosure objectives for defined benefit plans.

As the group does not have material defined benefit plans, the new standard has not impacted the financial statements.

Auckland Council Group

Unaudited statement of significant accounting policies continued

For the year ended 30 June 2020

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 2020

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 in surplus or deficit for the amount by which the carrying amount of property, plant and equipment exceeds its recoverable amount. 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.

Impact of the COVID-19 pandemic

Recognition of extension of time variations

The group uses third party construction companies to construct most of its buildings and infrastructure. During the COVID-19 Alert Level 4 lockdown, the group received claims from construction companies for contract variations for extension of time and costs. The claims were made on the basis of a law change and as per the terms of NZS3910 Conditions of contract for building and civil engineering construction; the standard form of contract used in the New Zealand construction market. Most of these variations were undergoing negotiation at 30 June 2020 and accordingly management has accrued its best estimate of these costs, being \$17.5 million. These extension of time variations were capitalised.

Valuation

The COVID-19 pandemic and ensuing financial instability triggered a high level of uncertainty in relation to the valuation of the group's assets. Valuation uncertainty has arisen because of an inactive market as limited sales transactional evidence exists since March 2020. Where assets have not been revalued during the year, management obtains market movement letters from independent valuers in order to determine whether the carrying value of property, plant and equipment is materially the same as its fair value. These letters provide insights into potential changes in fair value of the group's assets. Some of the external valuers have included a material valuation uncertainty statement in their valuation reports and market movement letters as at 30 June 2020. This implies that the information provided is current at the date of valuation only and that less certainty and a higher degree of caution should be attached to the valuations and letters than in other years. In addition, the values provided should be kept under frequent review as the assessed value may change significantly and unexpectedly over the relatively short period of time.

Auckland Council Group

Unaudited statement of significant accounting policies continued

For the year ended 30 June 2020

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 carried 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.

Impact of the COVID-19 pandemic

Central banks around the world decreased interest rates mainly in response to the financial instability caused by the COVID-19 pandemic. This has resulted in lower interest rates which has negatively affected the value of interest rate derivative financial instruments.

Although the COVID-19 pandemic brought about volatility to financial markets, the underlying judgements and estimates used in the valuation of derivative financial instruments has not changed.

Auckland Council Group

Unaudited statement of significant accounting policies continued

For the year ended 30 June 2020

Provisions and financial guarantees

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.

Financial guarantees are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under PBE IFRS 9 *Financial Instruments*
- the amount initially recognised less, where appropriate, the cumulative amount of amortisation recognised in accordance with the principles of PBE IPSAS 9 *Revenue from Exchange Transactions*.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

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 note to the financial statements

For the year ended 30 June 2020

Subsequent events

The following events that took place subsequent to balance date have had no impact on the financial statements.

Government announcement of funding of shovel-ready projects

In April 2020 the group submitted a list of 73 projects for consideration of government shovel-ready funding. In August the government announced funding of shovel-ready projects for several projects, some of which had funding allocated within group budgets, while other projects did not. A summary of the funding is as follows:

Project	Group entity responsible	Funding status before shovel ready	Total agreed shovel-ready funding \$million
Extension of Te Whau pathway through New Lynn and Te Atatu	Auckland Council	Unfunded	35.3
Community recycling infrastructure development	Auckland Council	Unfunded	10.7
Ferry basin redevelopment - stage 1	Auckland Transport	Funded	42.0
Upgrade to Puhinui creating a major bus and train interchange	Auckland Transport	Funded	22.1
North-western bus improvements including new bus interchanges at Te Atatū Rd, Lincoln Rd and Westgate	Auckland Transport	Unfunded	50.0
Infrastructure for housing including three waters and roading upgrades and development	Auckland Council, Watercare, Auckland Transport	Unfunded	188.0
Total			348.1

Funding will be provided by Crown Infrastructure Partners, the Ministry of Housing and Urban Development and Kāinga Ora to the relevant group entity on the completion of agreed milestones. Funding is subject to several terms and conditions, primarily around meeting agreed milestones, covering any cost overruns and achieving the benefits represented when submitting the project.

Ministry of Education and Carter Holt Harvey

In 2013 the Ministry of Education (MOE) initiated High Court Proceedings against Carter Holt Harvey (CHH) and others alleging inherent defect in the shadow clad plywood cladding sheets manufactured and distributed by CHH. In 2016, CHH commenced proceedings against 48 councils, including Auckland Council, alleging a breach of duty in the processing of building consents, undertaking building inspections and issuing Code of Compliance Certificates. On 3 September 2020 proceedings were discontinued against Auckland Council and the other councils.

Financial impact of the resumption of COVID-19 lockdown

COVID-19 Alert Level 3 lockdown resumed in Auckland on 12 August 2020 followed by lower alert levels from 30 August 2020. The lockdown did not have a material impact on the group results.

Review of Auckland Council's council-controlled organisations

A report on the review of Auckland Council's council-controlled organisations, conducted by an independent panel, was issued to the public on 11 August 2020. One recommendation was that the council-controlled organisations Regional Facilities Auckland Limited (RFAL) and Auckland Tourism, Events and Economic Development Limited (ATEED), be merged and a steering group be appointed to implement the change. The Auckland Council Governing Body met on 27 August 2020 and approved this recommendation to be effective 1 December 2020.