

Results announcement

Results for announcement to the market		
Name of issuer	Auckland Council	
Reporting Period	12 months to 30 June 2023	
Previous Reporting Period	12 months to 30 June 2022	
	Amount (000s)	Percentage change
Revenue from continuing operations ¹	\$6,673,351 ¹	18%
Total revenue	\$6,673,351 ¹	18%
Net profit/(loss) from continuing operations	\$1,010,064 ²	-41%
Total net profit/(loss)	\$1,010,064 ²	-41%
A brief explanation of any of the figures above necessary to enable the figures to be understood	¹ Total revenue from continuing operations excluding other gains/(losses) 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 (the group) performance reflects an ongoing recovery from the effects of COVID-19, with a steady increase in the use of our services and facilities, which is reflected in the increase in our revenues. Alongside the recovery, the group faced economic pressures from higher-than-expected inflation and interest rates. The severe weather events in Auckland in early 2023 also added unforeseen costs to clean-up the region and repair or write-down damaged assets. These weather events required the group to re-direct resources and funding to support the community. Storm response and recovery costs were largely funded by reductions in other expenditure, insurance recoveries and government assistance. To help mitigate the impacts from the economy and weather events, the group implemented tight spending controls, particularly on discretionary spend. Ongoing recovery and resilience costs for the region are estimated to be as high as \$4 billion and the funding for this	

	remains uncertain. Discussions are continuing with central government about their ongoing funding support. Group revenue was \$6.7 billion, an increase of \$1 billion on the prior year, reflecting a positive recovery from the challenges posed by COVID-19 in the prior year. Grants and subsidies of \$1.2 billion were \$383 million higher than the prior year mainly due to an additional \$265 million in transport-related subsidies from Waka Kotahi NZ Transport Agency (Waka Kotahi) and \$98 million of the total \$127 million Affordable Waters Better-off funding from central government. Included in the Waka Kotahi subsidies were an additional \$160 million for capital subsidies which reflect the increase in Auckland Transport's capital investment, \$63 million for half-price public transport fares, \$28 million for repairs following the recent weather events. Fees and other user charges increased by \$203 million. This reflects the recovery from the COVID-19 pandemic with higher storage, demurrage and container pricing at the port, increased usage of leisure centres and other community facilities, attendance of events and transport related revenues. Further, water revenues increased with greater usage following the end of the drought in the prior year, and a general 7 per cent price increase. Rates increased by \$158 million. This increase included our new climate action targeted rate, a 3.5 per cent increase in general rates and a 1.8 per cent increase in the number of ratepayers. Following the death of philanthropist Julian Robertson, the Auckland Art Gallery Toi o Tāmaki received a collection of prestigious 19th century and early 20th century international artworks valued at \$178 million. This is included in the \$209 million increase in Other revenue. Group operating expenditure increased by \$599 million to \$5.3 billion. Depreciation and amortisation costs increased by \$196 million, which was a direct result of the significant amount of capital investment that the group has made over recent years. It also reflects the \$8 billion revaluation increase in assets at the end of the prior year. Within other direct expenditure, cost of goods and services increased by \$135 million. This was mainly due to a higher cost
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	of public transport from increasing passenger numbers which were at 80 per cent of pre-COVID-19 levels at the end of the year. Employee benefits increased by \$70 million due to an average annual salary increases of around 5 per cent which is driven by our collective agreement obligations. The increase also arose from new pay rates to improve gender and ethnicity pay equity, the effects of skills shortages which drove an increase in the salaries of many new hires and employees in critical operational areas, and the cost of temporary labour to cover vacancies caused by the tight labour market. Overall, there was a \$398 million increase in operating surplus before gains and losses to \$1,349 million. Compared to the prior year, the group's net unrealised gains on financial instruments decreased by \$1 billion mainly from a slower increase in interest rates than in the prior year, and the value of the group's investment property decreased by \$164 million due to falling property prices in Auckland. Together with a \$73 million decrease in the group's share of associates and joint venture net deficits, the surplus before income tax decreased by \$398 million to \$1,072 million. After a deferred tax charge of \$62 million, the surplus after tax for the group was \$1,010 million, a 41% decrease compared to the prior year. Total assets increased by \$2.6 billion to \$73 billion. This reflects capital investment of \$2.7 billion. Key highlights include • providing funding to City Rail Link Limited, who completed all mined tunnelling from Maungawhau Station, a project that commenced in 2020 • completion of tunnel boring to the May Street Central Interceptor site • progress on the construction of the new Snells Beach wastewater treatment plant • completion of the main works of the Eastern Busway 1 (Panmure to Pakuranga) • opening of the Onehunga and Manurewa community recycling centres • construction and renewal of local board parks, sporting and leisure facilities. The group increased its net borrowings by \$1.2 billion to \$12.4 billion during the year primarily to fund our capital investment. This resulted in a debt to revenue ratio of 253 per cent which is
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	below the group's prudential limit of 290 per cent of group revenue. 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.
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Authority for this announcement	
Name of person authorised to make this announcement	Peter Gudsell, Group Chief Financial Officer
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Date of release through MAP	29/08/2023

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

Auckland Council Group
Unaudited Financial Statements
30 June 2023

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Auckland Council Group
Unaudited statement of comprehensive revenue and expenditure
For the year ended 30 June 2023

\$Million	Actual 2023	Actual 2022
Revenue		
Rates	2,280	2,122
Fees and user charges	1,472	1,269
Grants and subsidies	1,176	793
Development and financial contributions	240	236
Other revenue	871	662
Vested assets	616	582
Finance revenue measured using effective interest method	15	11
Other finance revenue	3	1
Total revenue excluding other gains	6,673	5,676
Expenditure		
Employee benefits expense	1,121	1,051
Depreciation and amortisation	1,268	1,073
Grants, contributions and sponsorship	187	219
Other operating expenses	2,225	1,944
Finance costs	523	438
Total expenditure excluding other losses	5,324	4,725
Operating surplus/(deficit) before gains and losses	1,349	951
Net other gains and losses	(163)	997
Share of net deficit in associates and joint ventures	(114)	(187)
Surplus before income tax	1,072	1,761
Income tax expense	62	37
Surplus after income tax	1,010	1,724
Other comprehensive revenue/(expenditure)		
Net gain on revaluation of property, plant and equipment	198	8,218
Impairment losses on revalued property, plant and equipment	(29)	-
Tax on revaluation of property, plant and equipment	(258)	(298)
Movement in cash flow hedge reserve	(1)	6
Tax on cash flow hedge	-	(2)
Fair value movement on revaluation of financial assets held at fair value through other comprehensive revenue and expenditure	357	(22)
Total other comprehensive revenue	267	7,902
Total comprehensive revenue	1,277	9,626

Auckland Council Group
Unaudited statement of financial position
As at 30 June 2023

\$Million	Actual 2023	Actual 2022
Assets		
Current assets		
Cash and cash equivalents	84	229
Receivables and prepayments	720	665
Derivative financial instruments	110	1
Other financial assets	110	60
Inventories	39	57
Income tax receivable	-	2
Non-current assets held-for-sale	989	86
Total current assets	2,052	1,100
Non-current assets		
Receivables and prepayments	54	51
Derivative financial instruments	626	527
Other financial assets	1,524	2,049
Property, plant and equipment	66,076	64,273
Intangible assets	467	486
Investment property	655	729
Investment in subsidiaries	-	-
Investment in associates and joint ventures	1,490	1,160
Other non-current assets	9	9
Total non-current assets	70,901	69,284
Total assets	72,953	70,384
Liabilities		
Current liabilities		
Bank overdraft	4	3
Payables and accruals	1,096	1,141
Employee benefits	121	112
Borrowings	2,403	994
Derivative financial instruments	2	3
Provisions	196	208
Total current liabilities	3,822	2,461
Non-current liabilities		
Payables and accruals	192	185
Employee benefits	5	5
Borrowings	10,054	10,369
Derivative financial instruments	568	637
Provisions	270	282
Deferred tax liabilities	2,491	2,171
Total non-current liabilities	13,580	13,649
Total liabilities	17,402	16,110
Net assets	55,551	54,274
Equity		
Contributed equity	26,693	26,693
Accumulated funds	6,803	5,812
Reserves	22,055	21,769
Total equity	55,551	54,274

Auckland Council Group
Unaudited statement of changes in equity
For the year ended 30 June 2023

\$Million	Contributed equity	Accumulated funds	Reserves	Total equity
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
Balance as at 1 July 2022	26,693	5,812	21,769	54,274
Surplus after income tax	-	1,010	-	1,010
Other comprehensive revenue	-	-	267	267
Total comprehensive revenue	-	1,010	267	1,277
Transfers (from)/to reserves	-	(19)	19	-
Balance as at 30 June 2023	26,693	6,803	22,055	55,551

Auckland Council Group
Unaudited statement of cash flows
For the year ended 30 June 2023

\$Million	Actual 2023	Actual 2022
Cash flows from operating activities		
Receipts from rates, grants and other services	5,753	5,124
Interest received	17	11
Dividends received	4	4
Payments to suppliers and employees	(3,479)	(3,213)
Income tax refund/(paid)	10	(8)
Interest paid	(493)	(459)
Net cash inflow from operating activities	1,812	1,459
Cash flows from investing activities		
Repayment of loans to related parties	-	-
Advances to related parties	-	-
Proceeds from sale of property, plant and equipment, investment property and intangible assets	47	74
Proceeds from sale of businesses, net of cash acquired	3	17
Acquisition of property, plant and equipment, investment property and intangible assets	(2,323)	(1,804)
Acquisition of other financial assets	(60)	(886)
Proceeds from sale of other financial assets	26	899
Investment in joint ventures	(449)	(428)
Advances from/(to) external parties	3	(2)
Proceeds from community loan repayments	-	-
Net cash outflow from investing activities	(2,753)	(2,130)
Cash flows from financing activities		
Proceeds from borrowings	3,421	3,524
Repayment of borrowings	(2,603)	(2,910)
Receipts from derivative financial instruments	396	1,092
Payments for derivative financial instruments	(418)	(1,100)
Repayment of finance lease principal	(1)	(3)
Net cash inflow from financing activities	795	603
Net decrease in cash and cash equivalents and bank overdraft	(146)	(68)
Opening cash and cash equivalents and bank overdraft	226	294
Closing cash and cash equivalents and bank overdraft	80	226

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 2023.

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.

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 %	
			2023	2022
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	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	Manages projects for economic development, tourism and events promotion in the Auckland region.	Yes	100	100
Tātaki Auckland Unlimited Trust	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 per cent 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

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

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.

Water services reform programme

The New Zealand government is implementing a water services reform programme that is intended to ensure that all New Zealanders have safe, reliable, and affordable water services. This will be achieved by establishing ten publicly-owned water services entities, from 1 July 2024 to 1 July 2026. These entities will be responsible for the delivery of drinking water, wastewater and stormwater services across New Zealand instead of 67 councils who currently provide these services. The reform will be enacted by the following three pieces of legislation.

- The Water Services Entities Act 2022 contains the water entities' ownership, governance, and accountability arrangements. This act received royal assent on 14 December 2022 and an accompanying amendment bill received royal assent on 22 August 2023. It establishes ten water services entities based on existing regional boundaries. It also provides for every territorial authority to be represented on the regional representative group of their entity, together with an equal number of mana whenua representatives, and introduces a staggered approach to establish the entities, with all entities going live between 1 July 2024 and 1 July 2026. It provides for an operational establishment date of 1 July 2024 for the Northland and Auckland Water Services Entity.
- The Water Services Legislation Bill provides water services entities with the necessary legislative functions, responsibilities, and powers to be fully operational from their 'go live' date. It passed its final reading in parliament on 22 August 2023 and is awaiting royal assent to become an Act of Parliament.
- The Water Services Economic Efficiency and Consumer Protection Bill provides the economic regulation and consumer protection frameworks for water services. It passed its final reading in parliament on 22 August 2023 and is awaiting royal assent to become an Act of Parliament.

The group will be impacted by the transfer of the urban stormwater network from Auckland Council, and the transfer of the assets and operations of Watercare Services Limited.

The National Transition Unit within the Department of Internal Affairs issued draft transfer principles and associated guidance in December 2022. These principles may be amended as the last two water services bills are finalised. Due to the timing of the issuance of these principles, the impact of the transfers from the group has not yet been fully determined with any certainty.

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Implementation of new and amended accounting standards

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. The group has adopted PBE IPSAS 41 *Financial Instruments*, and the adoption did not result in any significant impact on the group financial statements.

Standards issued but not yet effective

The group will adopt the following accounting standard in the reporting period after the effective date.

2022 Omnibus Amendments to PBE Standards, issued June 2022

The 2022 Omnibus Amendments include several general updates and amendments to several Tier 1 and Tier 2 PBE accounting standards. The revised PBE standards are effective from the year ending 30 June 2024. These are not expected to have any significant impact on the group financial statements.

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 circumstances. Judgements and estimates which are considered material to understanding the performance of the group are found in the following accounting policies:

- assets held for sale
- property, plant and equipment
- costs associated with significant weather events
- derivative financial instruments
- provisions
- classification of joint arrangements

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Non-current tangible and intangible assets

Non-current tangible and intangible assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses, if any, are recognised in the surplus or deficit. Increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised. They are not depreciated or amortised while they are classified as held for sale.

Financial assets

Financial assets held for sale are measured at fair value, determined according to the following hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. The quoted market price used for financial assets held by the group and the council is the bid price at balance date.
- Level 2 - Inputs other than quoted prices included within Level 1 using observable market inputs for the asset or liability, either directly or indirectly.
- Level 3 - Inputs for the asset or liability that are not based on observable market data.

Fair value movements are recognised in surplus or deficit except for the investments in listed shares. The group has elected to designate these investments in listed shares to be measured at fair value through other comprehensive revenue and expenses. The fair value of these securities is based on quoted market prices, which is Level 1 of the fair value hierarchy above.

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 water and transport 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.

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

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	5 to 100	Marinas	9 to 45
Water and wastewater	5 to 200	Rolling stock	14 to 35
Machinery	5 to 200	Wharves	5 to 100
Stormwater	12 to 150	Works of art	Indefinite
Other infrastructure	10 to 69	Other operational assets	1 to 50
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	3 to 87
Train stations	7 to 100	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)

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.

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Revaluation (continued)

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 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 will be considered in the following reporting period if the desktop valuation indicates that the fair value of a class of assets have moved significantly.

Water and wastewater, machinery, train stations and bus stations and shelters underwent a revaluation as at 30 June 2023, and specialised sporting and cultural venues and restricted land and buildings underwent a desktop valuation.

Costs associated with significant weather events

Damaged or destroyed assets

Damaged or destroyed assets are impaired to their recoverable service amount based on their value in use, using the restoration cost approach. This is determined by reference to the depreciated replacement cost of the assets less the costs to repair the damage.

Asset type	Where impairment loss is recognised
Assets held at cost	Net other gains or losses, in surplus or deficit.
Property, plant and equipment held at revalued amount	Other comprehensive revenue to the extent that it does not exceed the amount in the revaluation surplus for the class of asset. Any excess is recognised in Net other gains or losses, in surplus or deficit.
Investment property	Net other gains or losses, in surplus or deficit.

Costs to repair assets

Costs to repair damaged assets to their original condition are recognised in surplus or deficit within other operating expenses when incurred. Costs that renew the entire asset or improve the economic benefits or service potential of an asset are capitalised. For assets that have been impaired on a restoration cost approach, subsequent costs incurred to restore damaged assets to their original condition is capitalised unless the damage is minor and service potential of the asset values are unaffected.

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Insurance proceeds

Insurance proceeds are recognised when recovery is virtually certain. This is when the claim has been accepted by insurers and the group has received confirmation of the reimbursement value. The proceeds are recognised in surplus or deficit within other revenue.

The presentation of insurance proceeds in the statement of cash flow depends on the nature of insured item. The insurance proceeds which relate to damaged or destroyed assets are recognised as cash flows from investing activities. The insurance proceeds which relate to repair and maintenance expenses and normal business interruption are recognised as cash flows from operating activities.

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 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.

Auckland Council Group

Unaudited notes to the financial statements

Other disclosures

Funding of City Rail Link Limited

City Rail Link Limited (CRL) is a Crown entity co-funded by the central government and the council (the sponsors). It was created for the purpose of designing and constructing an underground rail line linking Britomart and the city centre with the existing western line near Mount Eden. The council is committed to funding 50% of this \$5.5 billion project. Constructed assets will be owned by the sponsors and related entities such as KiwiRail and Auckland Transport, however, the split of assets is yet to be decided.

During the year, the sponsors approved additional funding of \$1.1 billion for CRL. The additional funding relates to:

- settlement of claims relating to circumstances surrounding COVID-19
- increased costs to support the project
- cost and scope updates for three major contracts
- property development and claim costs related to two stations.

The council's remaining share of commitment to fund the CRL project is \$1.3 billion (2022: \$1.0 billion).

Decision to sell shares in Auckland International Airport Limited

On 8 June 2023 the council's governing body resolved to amend the 10-year budget 2021-2031 and the council's Auckland Airport Shareholding Policy to allow for the sale of up to 7% of Auckland Airport International Limited's (AIAL) total shares in 2023/2024. This was approximately 39% of the council's shareholding at that date. The 7% shareholding was reclassified from other financial assets to non-current assets held for sale in the statement of financial position as at 30 June 2023.

Non-current assets held for sale

\$Million	2023	2022
Land and buildings	108	86
Other assets	1	-
Auckland International Airport Limited shares	880	-
Total	989	86

Auckland Council Group

Unaudited notes to the financial statements

Other disclosures (continued)

Impacts of significant weather events

Auckland experienced two significant weather events in January and February 2023, the Auckland Anniversary flood and Cyclone Gabrielle. This was followed by a storm event in May. These weather events caused widespread damage to the group's property and infrastructure from flooding, landslides and extreme wind, which in turn resulted in the accumulation of silt, debris, and contamination of sites. Some of the damage to the group's assets was covered by insurance. The most significant impacts that affected the group included, but were not limited to:

- damage to community buildings, recreation centres, venues for hire, libraries, works of art and reserves from water flows, infiltration, fallen trees and debris
- over 1,300 landslides with several major ones affecting roads
- the closure of 150 roads and 29 cycleways due to the accumulation of debris, potholes and subsidence
- damage to several bridges, including the Mill Flat Road bridge, and washed-out abutments of Sherwood Drive bridge
- damage to the water catchments, treatment plants, network pipes and electrics of many wastewater pump stations
- water damage to buses and trains.

Auckland Emergency Management, a function of Auckland Council that works in partnership with emergency services and related organisations, provided and emergency response to the communities affected. The response included:

- providing 7,000 building safety assessments
- preparing of 800 to 1,000 parcels a day for welfare support
- disposing of 5,700 tonnes of flood-damaged household items
- clearing landslides and debris from roads
- providing geotechnical investigations of unstable land, roads and buildings
- clearing over 3,000 fallen trees on public land
- assessing and prioritising capital spend to repair damage and restore the water and roading networks.

Current year financial impacts

The group incurred approximately \$83 million in response costs such as clean-up costs. An impairment loss of \$39 million was recognised for property, plant and equipment damaged due to flooding and high winds. The recoverable service amount of property, plant and equipment was based on value in use using the restoration cost approach, which was determined by reference to the depreciated replacement cost of the asset less repair costs.

Of this \$39 million, \$29 million relates to revalued property, plant and equipment. The impairment was recognised as a decrease in revaluation reserves, in Other Comprehensive Revenue and Expense. The remaining \$10 million relates to property, plant and equipment which is held at cost. This impairment has been recognised in Net other losses in Surplus or Deficit.

Auckland Council Group

Unaudited notes to the financial statements

Other disclosures (continued)

Current year financial impacts (continued)

Transport related emergency works were funded by Waka Kotahi NZ Transport Agency at a funding assistance rate of 91 per cent, which equated to \$28 million. Eligible welfare costs were funded in full by central government and other eligible response and recovery costs were 60 per cent funded.

An immaterial amount of insurance proceeds was received during the year, the majority is expected to be received in 2023/2024.

Subsequent events

Central government assistance with weather event recovery and building resilience

The council has agreed to consult with residents on a cost sharing arrangement with the central government that, if approved, will involve co-funding the costs of recovery from the early 2023 weather events and increasing the resilience of the region's infrastructure. This arrangement would see council and central government fund on a 50/ 50 basis the estimated buy-out costs of residential properties where there is an intolerable risk to life and it is not feasible to mitigate this risk. It would also provide incremental funding for the costs of recovering our transport networks and our proposed investment in wider flood mitigation and resilience work, the Making Space for Water programme. Across these areas central government would be contributing around \$1 billion. The council would be required to contribute a similar amount. Further detail of the scheme (including valuation and acquisition methodology) continues to be worked through.

While all parties wish to advance the buy-out process at pace, this arrangement is subject to public consultation, and subsequent decisions made through the adoption of the council's Long-term Plan 2024-2034. Also, to be consulted on is the source of funding of the council's share of the investment, with several options available including debt, reducing or deferring other capital spending, the sale of assets, service reductions and rates increases.

Apart from the matter above, there are no events occurring subsequent to balance date that require disclosure.