

Results announcement

Results for announcement to the market		
Name of issuer	Auckland Council	
Reporting Period	12 months to 30 June 2024	
Previous Reporting Period	12 months to 30 June 2023	
	Amount (000s)	Percentage change
Revenue from continuing operations	\$7,189,712 ¹	8%
Total revenue	\$7,189,712 ¹	8%
Net profit/(loss) from continuing operations	\$584,138 ²	-42%
Total net profit/(loss)	\$584,138 ²	-42%
A brief explanation of any of the figures above necessary to enable the figures to be understood	¹ Revenue from continuing operations and total revenue excluding other gains. ² Net profit/(loss) from continuing operations and net profit/(loss) above are shown after tax, before other comprehensive revenue/(expenditure). In the Auckland Council financial statements these are referred to as surplus/(deficit), rather than profit/(loss), as required by the Public Benefit Entity Accounting Standards. Results overview Auckland Council Group's annual results to 30 June 2024 show how the group delivered the biggest ever capital programme while maintaining an ongoing commitment to Aucklanders affected by the 2023 severe weather events. The group invested a total of \$3.2 billion in assets and infrastructure, \$0.5 billion higher than prior year. Most of the investment was in roading and transport assets (\$1.4 billion) as well as water supply, wastewater and stormwater assets (\$1.2 billion). Key highlights of our capital programme included: • providing funding, alongside the Crown, to City Rail Link Limited which continued work on New Zealand's largest infrastructure project. One of the key milestones in 2023/2024 was the completion of railway track laying within the two tunnels. • achievement of a major milestone on the Central Interceptor project, with the Domenica tunnel boring machine finishing off Link sewer B, which collects	

	wastewater and stormwater flows from Mount Albert, sending them to Māngere Wastewater Treatment Plant for processing. • completion of the new Mairangi Bay wastewater pump station which significantly reduces wet weather overflows and releases pressure on the wastewater network. • significant progress made on the Eastern Busway project with the extension of William Roberts Road and the Aylesbury Street/Ti Rākau Drive junction opened. • completion of the Stanmore to Fife stormwater upgrade project in Grey Lynn. • construction and renewal of many local and regional parks, sporting and leisure facilities, such as re-opening of Cascade Kauri in the Waitākere Ranges after six years of restoration and completion of Hayman Park playground in Manukau, winner of two prestigious architectural awards. The group's response to the early 2023 weather events can be seen in both its capital and operating expenditure. The \$3.2 billion investment in assets and infrastructure includes \$132 million³ that was paid for 127 Risk Category 3⁴ properties that were bought-out. In addition to the \$132 million, the group in the 2023/2024 year provided for \$553 million to cover the estimated remaining cost of purchasing Risk Category 3⁴ properties and grants for Risk Category 2P⁵ risk mitigation activities in the future. Auckland Council received a 50 per cent contribution towards the property buy-outs (\$67 million for current year) from central government which is reflected in grants and subsidies revenue. The group uses debt to spread the cost of assets over the generations that will use them. During the year, our net debt decreased by \$70 million to \$12.3 billion, mainly due to proceeds from the sale of part of our Auckland International Airport Limited shareholding that realised \$833 million. These proceeds were used to repay some of the council's debt as it matured and to fund new capital investment. This resulted in a debt-to-revenue ratio at 30 June 2024 of 239% (2023: 253%) which is below the group's prudential limit of 290% of group revenue. Group revenue was \$7.2 billion, an increase of \$517 million on the prior year. The largest increase was in rates revenue which
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	increased by \$243 million to \$2.5 billion. This increase is due to the annual general rates increase, a growing ratepayer base and movements in targeted rates. Increased public transport use and more people getting out and about resulted in public transport, parking and traffic infringement revenues of \$261 million, \$91 million higher than the prior year. Water and wastewater revenue was \$69 million higher due to the 9.5% price increase applied in July 2023. Grants and subsidies of \$1.3 billion were \$89 million higher than the prior year, mainly due to grants received from the central government for the property buy-outs of \$67 million, as mentioned above, and \$148 million of subsidies received for transport projects such as the catch-up of New Zealand Upgrade Programme funding for Eastern Busway and funding from the Climate Emergency Response Fund. This was partially offset by a reduction in operating grants of \$69 million related to Affordable Waters Better-off funding from the central government.⁶ Other revenue was \$107 million lower than the year prior primarily because the group received donated artworks worth \$178 million from the Julian Robertson estate in the 2022/2023 year. Also of significance was an \$82 million increase in vested asset revenue⁷, representing the receipt of parks and infrastructure assets from developers. Total operating expenses increased by \$1.2 billion to \$6.5 billion compared to the prior year with the addition of \$685 million non-direct expenses related to Risk Category 3⁴ property buy-outs and Risk Category 2P⁵ risk mitigation activities. Depreciation and amortisation expenses were \$107 million higher than the prior year, mainly due to new additions and upward revaluations of property, plant and equipment at the end of the prior year. Other large cost increases relate to the management of contaminated land and closed landfills which was \$74 million higher than the prior year, due to higher estimated asset maintenance and operational costs. Furthermore our cost base, which includes wages and salaries, materials and long-term contract costs, was affected by strong inflation. Our interest costs also increased as a result of high interest rates. The group's surplus after income tax was \$584 million after net other losses of \$44 million, and a share of the net deficit in
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	associates and joint ventures of \$5 million. This was a decrease of \$426 million compared to the prior year. Given the challenging economic conditions and continued commitment to be financially prudent while responding to the impacts of the 2023 severe weather events, the group prioritised spend on existing services and infrastructure where it was needed most, for example for critical transport and water infrastructure projects. To achieve this, the council found operational efficiencies and adjusted the size and timing of some capital projects. The prudent approach to debt is reflected in the retention of our AA and Aa2 ratings from S&P Global and Moody's Investor Services respectively, both with a 'stable' outlook. ³ This is the amount paid to purchase Risk Category 3 damaged properties. Land purchased is intended to be used as public open space reserves, stormwater reserves that reduce flood risk, or in some cases parts of the land purchased may be sold. The purchased properties are valued in accordance with our accounting policies, and the resulting values are different from the acquisition costs. ⁴ Risk Category 3 funding is provided for the purchase of properties as a result of severe weather events. The properties are assessed by Auckland Council to represent an intolerable risk to life with land instability or flooding and for which there are no feasible mitigation solutions. Residential properties assessed as category 3 are eligible for a buy-out. ⁵ Risk Category 2P funding is provided for properties where there is assessed to be an intolerable risk to life from a future storm event for which there is a feasible mitigation at a property level. ⁶ Better-off funding was received from central government in 2022/2023 related to the water services reform programme. The funding was provided to fund operating expenditure in the short-term and in line with funding criteria. The legislation for water services reform programme was repealed in 2023/2024. ⁷ Vested asset revenue represents infrastructure received from property developers who construct the infrastructure as a condition of development.
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Authority for this announcement	
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Date of release through MAP	29 August 2024

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

Auckland Council Group
Unaudited Financial Statements
30 June 2024

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Auckland Council Group
Unaudited statement of comprehensive revenue and expenditure
For the year ended 30 June 2024

\$Million	Actual 2024	Actual 2023
Revenue		
Rates	2,523	2,280
Fees and user charges	1,678	1,472
Grants and subsidies	1,265	1,176
Development and financial contributions	222	240
Other revenue	764	871
Vested assets	698	616
Finance revenue measured using effective interest method	36	15
Other finance revenue	4	3
Total revenue excluding other gains	7,190	6,673
Expenditure		
Employee benefits expense	1,195	1,121
Depreciation and amortisation	1,375	1,268
Grants, contributions and sponsorship	200	187
Other operating expenses	3,145	2,225
Finance costs	562	523
Total expenditure excluding other losses	6,477	5,324
Operating surplus/(deficit) before gains and losses	713	1,349
Net other gains and losses	(44)	(163)
Share of net deficit in associates and joint ventures	(5)	(114)
Surplus before income tax	664	1,072
Income tax expense	80	62
Surplus after income tax	584	1,010
Other comprehensive revenue/(expenditure)		
Net (loss)/ gain on revaluation of property, plant and equipment	(265)	198
Impairment losses on revalued property, plant and equipment	-	(29)
Tax on revaluation of property, plant and equipment	1	(258)
Movement in cash flow hedge reserve	-	(1)
Fair value movement on revaluation of financial assets held at fair value through other comprehensive revenue and expenditure	(247)	357
Total other comprehensive (expenditure)/ revenue	(511)	267
Total comprehensive revenue	73	1,277

Auckland Council Group
Unaudited statement of financial position
As at 30 June 2024

\$Million	Actual 2024	Actual 2023
Assets		
Current assets		
Cash and cash equivalents	616	84
Receivables and prepayments	764	720
Derivative financial instruments	13	110
Other financial assets	139	110
Inventories	41	39
Non-current assets held-for-sale	176	989
Total current assets	1,749	2,052
Non-current assets		
Receivables and prepayments	88	54
Derivative financial instruments	551	626
Other financial assets	1,361	1,524
Property, plant and equipment	67,697	66,076
Intangible assets	479	467
Investment property	657	655
Investment in associates and joint ventures	1,803	1,490
Other non-current assets	9	9
Total non-current assets	72,645	70,901
Total assets	74,394	72,953
Liabilities		
Current liabilities		
Bank overdraft	-	4
Payables and accruals	1,304	1,096
Employee benefits	126	121
Borrowings	1,371	2,403
Derivative financial instruments	7	2
Provisions	375	196
Total current liabilities	3,183	3,822
Non-current liabilities		
Payables and accruals	197	192
Employee benefits	5	5
Borrowings	11,546	10,054
Derivative financial instruments	569	568
Provisions	700	270
Deferred tax liabilities	2,570	2,491
Total non-current liabilities	15,587	13,580
Total liabilities	18,770	17,402
Net assets	55,624	55,551
Equity		
Contributed equity	26,693	26,693
Accumulated funds	7,564	6,803
Reserves	21,367	22,055
Total equity	55,624	55,551

Auckland Council Group
Unaudited statement of changes in equity
For the year ended 30 June 2024

\$Million	Contributed equity	Accumulated funds	Reserves	Total equity
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
Balance as at 1 July 2023	26,693	6,803	22,055	55,551
Surplus after income tax	-	584	-	584
Other comprehensive expenditure	-	-	(511)	(511)
Total comprehensive revenue/ (expenditure)	-	584	(511)	73
Transfers to/(from) reserves	-	177	(177)	-
Balance as at 30 June 2024	26,693	7,564	21,367	55,624

Auckland Council Group
Unaudited statement of cash flows
For the year ended 30 June 2024

\$Million	Actual 2024	Actual 2023
Cash flows from operating activities		
Receipts from rates revenue*	2,523	2,280
Receipts from grants and other services*	3,886	3,473
Interest received	34	17
Dividends received	23	4
Payments to suppliers, employees and third parties	(3,872)	(3,479)
Income tax (paid)/refund	(1)	10
Interest paid	(531)	(493)
Net cash inflow from operating activities	2,062	1,812
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment, investment property and intangible assets	22	47
Proceeds from sale of businesses, net of cash acquired	-	3
Acquisition of property, plant and equipment, investment property and intangible assets	(2,658)	(2,323)
Acquisition of other financial assets	(86)	(60)
Proceeds from sale of other financial assets	885	26
Investment in joint ventures	(323)	(449)
Advances from external parties	1	3
Net cash outflow from investing activities	(2,159)	(2,753)
Cash flows from financing activities		
Proceeds from borrowings	5,292	3,421
Repayment of borrowings	(4,846)	(2,603)
Receipts from derivative financial instruments	2,879	396
Payments for derivative financial instruments	(2,691)	(418)
Repayment of finance lease principal	(1)	(1)
Net cash inflow from financing activities	633	795
Net increase/(decrease) in cash and cash equivalents and bank overdraft	536	(146)
Opening cash and cash equivalents and bank overdraft	80	226
Closing cash and cash equivalents and bank overdraft	616	80

* Receipts from rates revenue and Receipts from grants and other services were reported together in a single disclosure line in prior year. They have now been restated to be split into separate lines for better presentation.

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 public 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 2024.

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.

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Significant subsidiaries

The significant subsidiaries in the group comprise:

Name	Principal activities and nature of relationship where there is no direct ownership	CCO	Percentage ownership %	
			2024	2023
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
Port 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% owned subsidiary of Auckland Council, is the sole trustee.</i>	Yes	100^	100^
Watercare Services Limited	Provides water and wastewater services and owns and operates the water and wastewater infrastructure.	Yes	100	100

Significant restrictions

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

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

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Implementation of new and amended accounting standards

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. The group has adopted the revised PBE standards, and the adoption did not result in a significant impact on the group financial statements.

Disclosure of Fees for Audit Firms' Services – (Amendments to PBE IPSAS 1)

Disclosure of Fees for Audit Firms' Services (the amending Standard) was issued in May 2023. This amending standard updates the required disclosures for fees relating to services provided by the entity's audit or review firm. The fees must be disaggregated into specified categories and there is guidance to assist entities in determining the types of services to include in each category. This amending standard is effective for reporting periods beginning on or after 1 January 2024 with early adoption permitted. The group has early adopted the revised PBE standards, and the adoption did not result in a 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.

PBE IFRS 17 Insurance Contracts

PBE IFRS 17 Insurance Contracts for public sector entities was issued in June 2023. This standard establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts. It is effective for reporting periods beginning on or after 1 January 2026 with early adoption permitted. The group has not assessed the effect of the new standard in detail.

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:

- property, plant and equipment
- derivative financial instruments
- provisions
- investment in other entities

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Property, plant and equipment

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

- **Infrastructure assets** include land under roads and systems and networks integral to the city's 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.

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	18 to 60
Roads	5 to 100	Marinas	9 to 45
Water and wastewater	5 to 200	Rolling stock	10 to 35
Machinery	5 to 200	Wharves	10 to 100
Stormwater	12 to 132	Works of art	13 to Indefinite
Other infrastructure	10 to 69	Other operational assets	1 to 50
		Other operational assets (Risk Category 3 properties)	Indefinite
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
Specialised sporting and cultural venues (land)	Indefinite	Specified and cultural heritage assets	Indefinite
Train stations	9 to 100		

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Disposals

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

Damaged assets

Damaged 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.

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.

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)

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 group uses the depreciated replacement cost (DRC) method in revaluing most of its property, plant and equipment. Specialised sporting and cultural venues are valued using the optimised depreciated replacement cost method (ODRC) and operational land and buildings, parks and reserves, marinas and works of art are mainly valued at market value.

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. The revaluation process involves physical inspection of selected assets to note aspects such as condition, utilisation, replacement timing and asset optimisation.

ODRC is calculated based on the replacement cost new of a modern equivalent asset as the starting point and applies optimisation and depreciation to adjust for age, condition, performance and remaining useful life. Replacement cost estimates refer to current construction costs and are adjusted where necessary for fees, lead time, demolition cost and any other necessary changes.

Market value is based on recent equivalent sales or the present value of future cash flows.

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 is required in the following reporting period.

Operational land and buildings, restricted parks, reserves and buildings, stormwater and wharves underwent a revaluation as at 30 June 2024.

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

Derivative financial instruments

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

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

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

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.

Provision for Risk Category 3 property buy-outs and Risk Category 2P properties

Following the 2023 Auckland Anniversary storm and Cyclone Gabrielle, a funding agreement is in place with the central government for the cost-sharing of the region's recovery. Central government will contribute up to \$877 million towards Risk Category 3 property buy-outs, Risk Category 2 mitigation projects, and regional transport projects.

The New Zealand government's risk categorisation framework has been used to categorise homes affected by the weather events and residential properties that may be considered high risk in future events. According to the framework and the funding agreement, the council will:

- administer the programme for the Risk Category 3 property buy-outs and will take ownership of them. Risk Category 3 properties hold intolerable risk to life and future severe weather event risk cannot be sufficiently mitigated.
- provide grants to Category 2P property owners. These are properties where there is an intolerable risk to life from severe weather events and property-level mitigations can reduce the risk to a tolerable level.

Auckland Council Group

Unaudited statement of significant accounting policies (continued)

- fund infrastructure improvements for Category 2C properties. These are properties that need community level measures to manage future severe weather event risk such as repairing and enhancing flood protection schemes.
- further assess Category 2A properties to identify if they fall within Category 2C or 2P.

The central government funding is provided when the council raises a payment request after actual costs are incurred.

The council estimated there will be 900 Risk Category 3 property buy-outs, of which the council has bought back 127 properties and paid \$132 million for settlement as at 30 June 2024.

The council recognised a \$523 million provision for the buy-out of remaining Risk Category 3 properties and a \$30 million provision for the Risk Category 2P mitigation projects as at 30 June 2024 (2023: \$nil). The provision is based on the best estimate of the present value of the expenditure needed to settle the obligations to property owners. The estimates are determined based on the judgements and assumptions made by management and independent actuaries. Uncertainty around amount and timing due to these assumptions may result in actual outcomes that are significantly different from the estimate in the future.

Investment in other entities

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

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

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Other material matters

Water services reform programme

The water services legislation (namely the Water Services Entities Act 2022, the Water Services Legislation Act 2023 and the Water Services Economic Efficiency and Consumer Protection Act 2023), was repealed on 17 February 2024. As a result, the water services reform assets and operations as disclosed in 30 June 2023 financial statements will no longer be transferred to Entity A. As part of the government's water infrastructure policy 'Local Water Done Well', the government and council have agreed a new model for Auckland, where the council will be prohibited from providing financial support to Watercare from 1 July 2026. In the new model Watercare will be able to borrow more money in its own name for long-term investment in water infrastructure. Watercare will remain within the Auckland Council group and will continue to be fully consolidated. This model is expected to be formalised through legislation introduced in the coming months.

Auckland regional fuel tax (RFT) updates

The government cancelled one of the council's funding sources, the RFT ending the scheme four years early on 30 June 2024. This resulted in a \$600 million reduction in expected future RFT funding. Consequently, a number of future projects, funded by both RFT and other funding sources, had to be reprioritised, re-scoped, or deferred through the long-term plan development.

Auckland Future Fund

Auckland Council's Long-term Plan 2024-2034 confirmed the establishment of an Auckland Future Fund to improve the financial resilience of the council. The Auckland Future Fund will be overseen by the directors of Auckland Future Fund Trustee Limited (AFF directors) with advice from a professional investment manager who will operate under a clear set of investment objectives and policies. This long-term plan enables the transfer of all the council's remaining shares in Auckland International Airport Limited (AIAL) into the fund and enables the AFF directors to sell the shares and diversify the funds.

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Subsequent events

There are no material events occurring subsequent to balance date.