Pūrongo Taupua a te Rōpū Kaunihera o Tāmaki Makaurau

31 o Hakihea 2021

Auckland Council Group Interim Report

31 December 2021

Auckland Council
Te Kaunihera o Tāmaki Makaurau

◀ Etienne Neho (Ngāti Whātua Ōrākei) at work planting during *Te Maharatanga o Ngā Wai – Remembering our waters* placemaking, Sale Street, 2021

▲ Queen Street temporary footpath, 2020

Mihi

Noho mai rā Tāmaki Makaurau,
moana waipiata,
maunga kākāriki.
Mai i ngā wai kaukau o ngā tūpuna,
ki ngā puke kawe i ngā reo o te tini,
i puta ai te kī mōu.
Tū ana he maunga,
takoto ana he raorao,
heke ana he awaawa.
Ko ō wahapū te ataahua,
ō tāhuna te mahora,
te taiao e whītiki nei i a koe he taonga tuku iho.
Tiakina kia meinga tonu ai koe
ko ‘te tāone taioreore nui o te ao,
manakohia e te iwi pūmanawa’.
Tāmaki Mākaurau tirohia te pae tawhiti
he whakairinga tūmanako
mō ngā uri whakaheke o āpōpō,
te toka herenga mō te hunga ka takahi ake
mā ō tomokanga,
te piriti e whakawhiti ai
tō iwi ki ngā huarahi o te ora.
Tāmaki Mākaurau e toro whakamua,
hīkina te mānuka.
Tērā te rangi me te whenua te tūtaki.
Maranga me te rā, he mahi māu me tīmata,
ka nunumi ana ki te pō,
whakatārewahia ō moemoeā ki ngā whetū.
Ko te oranga mutunga mōu
kei tua i te taumata moana.
Whakatuwherahia ō ringa, kūmea mai k i tō uma.
Tāmaki Makaurau
he tāone ūmanga kurupounamu koe;
tukua tō rongo kia rere i te ao.

Tāmaki Makaurau
who bestrides shimmering seas,
and verdant mountains.
From the bathing waters of our forebears,
and hills that echo with voices
that acclaim.
Your mountains stand lofty,
your valleys spread from them
and your streams run freely.
Your harbours are majestic,
your beaches widespread,
the environment that surrounds you is a legacy.
Take care of it so that you will always be known
as ‘the world-class city
where talent wants to be’.
Tāmaki Makaurau looking to the future,
repository of our hopes
for generations to come,
anchor stone for those who venture
through your gateway,
and the bridge that connects
your citizens to life.
Tāmaki Makaurau moving on,
accepting all challenges.
Where even heaven and earth might meet.
Rise with the sun as there is work to be done
and when evening comes,
allow your dreams to glide among the stars.
Perpetual health and growth
is beyond the horizon of cresting waves.
Open your arms and pull them to your embrace.
Tāmaki Makaurau, you are a city
where valued business and enterprise thrives;
let your good name traverse the world.

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He karere nā te koromātua
Message from the mayor

Auckland Council Group (the group) maintains its prudent and flexible approach to the high degree of uncertainty posed by COVID-19 and global economic conditions, while delivering essential services and progressing the critical infrastructure investments Auckland needs to fulfil its potential as a world-class city.

Two years into the COVID-19 pandemic, the outlook - both in New Zealand and globally - remains highly uncertain. While the government's introduction of the COVID-19 Protection Framework has provided some assurance that further widespread lockdowns are unlikely to be imposed, the spread of the virus in the community and the possibility that new variants may yet emerge continues to impact the group, businesses, Aucklanders, and the economy.

The uncertainty is compounded by rapidly increasing inflation, rising interest rates and global supply chain challenges, the effects of which are being felt throughout the economy, including in the building and construction industries. This poses real challenges for the future.

The group anticipated some of these pressures in its 10-year Budget 2021-2031 (Recovery Budget), and has continued to respond to emerging challenges by maintaining its prudent approach to financial management and becoming a more efficient and agile organisation. At the same time, the group has continued to deliver essential services and is progressing its investments in the critical transport, water, environmental and housing infrastructure that Auckland needs to succeed.

While COVID-19 lockdowns have disrupted some operations, we have maintained the essential services and facilities Aucklanders rely on and which make the city an attractive and enjoyable place to live, work and visit, such as public transport services, parks and playgrounds, community facilities, waste and

▲ CRL Aotea Station Visit 2021

recycling services, libraries, and community pools and recreation centres.

Work to deliver the modern, low-emissions transport network that Auckland needs progressed despite the challenges of COVID-19 lockdowns and health restrictions. The first stage of the Eastern Busway was officially opened in December 2021, providing a massive improvement in access to frequent and reliable public transport in east Auckland. Construction of the Panmure to Botany stage of the busway is due to start in 2022. Major projects such as the City Rail Link have progressed, despite the impacts of COVID-19 restrictions, and work will begin soon on the North-western Busway Improvements. These and other major transport investments will help reduce transport emissions - critical to achieving our climate change goals - and address traffic congestion, making it faster and easier to get around the city.

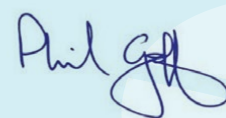
"We will continue to search for increased savings and efficiencies throughout the council group to ensure ratepayers receive value for money."

Investments to increase the resilience of Auckland's water supply in response to the record-breaking drought in 2019/2020 have continued and will add 100 million litres a day to Auckland's water supply. Combined with water savings by Aucklanders of more than 20 billion litres and an increased take from the Waikato River, the group was able to lift the remaining restrictions on water use in October 2021. These investments, combined with a wet spring, provide confidence that further restrictions will not be required in the medium-term, despite this January being one of the driest months on record.

Following the achievement of the $120 million savings goal set in the Emergency Budget, we have continued to deliver significant savings for ratepayers, and we are on track to hit the savings target of $90 million a year set in the Recovery Budget. As at 31 December 2021, the group has achieved $71 million (78 per cent) towards this target for 2021/2022. We will continue to search for increased savings and efficiencies throughout the group to ensure ratepayers receive value for money and to offset the pressures of higher inflation and interest rates.

Our ongoing prudent approach to managing debt and finances is reflected in the retention of our AA and Aa2 ratings from S&P Global and Moody's respectively, both with a 'Stable' outlook. Maintaining this prudent approach is important as we face future challenges from COVID-19, global economic uncertainty, and downside risk.

The group's careful and responsible approach to financial management has to date been effective in protecting against the unprecedented impact of the COVID-19 crisis. This approach has helped buffer against financial shocks and - despite a highly uncertain environment - has enabled the group to maintain its ability to invest in the critical infrastructure, services and facilities Auckland needs to succeed as New Zealand's world-class, international city.



Hon Phil Goff
Mayor of Auckland

25 February 2022

He karere nā te tumu whakarae

Message from the chief executive

Auckland Council Group's interim report for the first six months to the end of December confirms that many of the pressures anticipated in our recovery budget have materialised.

The group has balanced priorities in these uncertain conditions but will continue to be challenged by the ongoing effects of the COVID-19 pandemic and economic trends such as rising inflation and interest rates.

Pandemic-related lockdowns and restrictions have impacted some key revenue areas and restricted our ability to make all the capital investment that we had planned. Delays resulting from social distancing requirements, supply chain challenges as well as difficulties in finding suitably qualified staff have all disrupted the delivery of our capital programmes. Despite these challenges, the group and our construction partners demonstrated remarkable resilience and were still able to progress many major water and transport programmes including important projects for our local communities.

This progress included the completion of innovative and ambitious work such as stage one of Kaipara Moana Remediation's South Kaipara Stream project and the Southeast Asia development at the zoo. The South Kaipara Stream initiative strives for the protection of Kaipara Moana to ensure the waterways and wetlands of the catchment are healthy and enhanced, and the diverse communities of the Kaipara benefit from these efforts. The Southeast Asia development at Auckland Zoo is all about providing exceptional habitats for our animals and a world-class immersive experience. It is also progressing well, with completion expected around 30 June 2022.

Of course, some capital projects have been more adversely affected than others. Projects experiencing high levels of disruption included the Transform Manukau programme, roading maintenance and road upgrades such as the Matakana Drive Link and Huapai improvement projects.

Overall, the group delivered $917 million of capital investment during the six months ending 31 December 2021, which is a decrease of 24 per cent ($288 million) compared to the same period a year ago. The lower level of capital investment saw a corresponding reduction in the requirement for borrowings over the period.

On the revenue side, lower public transport usage, restrictions on movement, cancellation of events and reduced earnings from our investments in the port and airport all impacted cash revenue for the group. This was partly offset by regulatory fee revenue and Watercare's infrastructure growth charges being higher than budget. While higher non-cash revenue from vested assets boosted the overall revenue result, the lower cash revenue made for a tough operating environment.

In addition, there were some cost pressures that had to be absorbed during the six months. These included increased employee benefits due to additional overtime for shift work to ensure physical distancing requirements were met, and higher market interest rates which adversely impacted group financing costs.

On the other hand, delays to work programmes and reduced costs from cancelled or postponed events helped to reduce operating expenditure, as did continued strong progress in achieving efficiency savings.

We kept our debt within our prudential limits and achieved an overall operating result of $1.5 billion, a $119 million improvement on the prior year. Overall, this interim report represents a strong operating outcome in a tough operating environment. It also reflects our strong commitment to long-term financial prudence in a time of uncertainty.

I am proud that we have had the resilience to continue to deliver services and progress critical investments for our city to support its recovery. Our work on efficiency savings, management of our debt requirements, prioritisation of capital programmes and a focus on recycling non-strategic assets, along with the crucial partnership with central government, has set us up well to respond to the uncertainty that lies ahead.

Jim Stabback
Chief Executive

25 February 2022

Tirohanga mō te pāinga ā moni

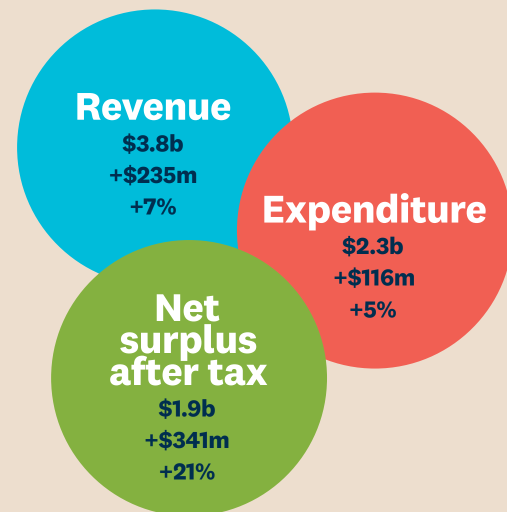
Financial performance overview

Tirohanga mō te päinga ā moni

Financial performance overview

Our financial performance compared to the same period last year

The uncertainty and disruption caused by both the COVID-19 pandemic and unfavourable economic trends placed pressure on our operations and finances in the six months to the end of December 2021.



The extended COVID-19 lockdown during the six months impacted some key revenue streams and restricted our ability to deliver our capital investment programme including many projects important to our local communities. In addition, the more substantive economic impacts from the pandemic such as the global and local supply chain challenges, increased construction costs, labour shortages, higher inflation and increased interest rates impacted our results.

Revenue

Revenue was $235 million higher than in the prior year. The majority of this relates to an increase of $202 million in vested assets received by the group in the six-month period compared with a year earlier.

This includes the receipt of the newly renovated Central Post Office building from City Rail Link Limited (CRLL), valued at $162 million. The revenue increase also included a rise in rates revenue of $138 million. This reflected the planned 5% general rates increase and a 1.9% expansion in the rating base. Revenue was boosted by the underlying strength in the construction sector, resulting in an increase in water infrastructure growth charges of $22 million and regulatory income of $8 million.

Revenue relating to our everyday services to the community was significantly reduced due to the COVID-19 lockdown. Public transport usage, closure of facilities and venues, and cancellation of events reduced revenue by $77 million. The pause in capital works, and subsequently the requirement for physical distancing resulted in a $57 million decrease in matching capital subsidies from central government and its agencies.

Expenditure

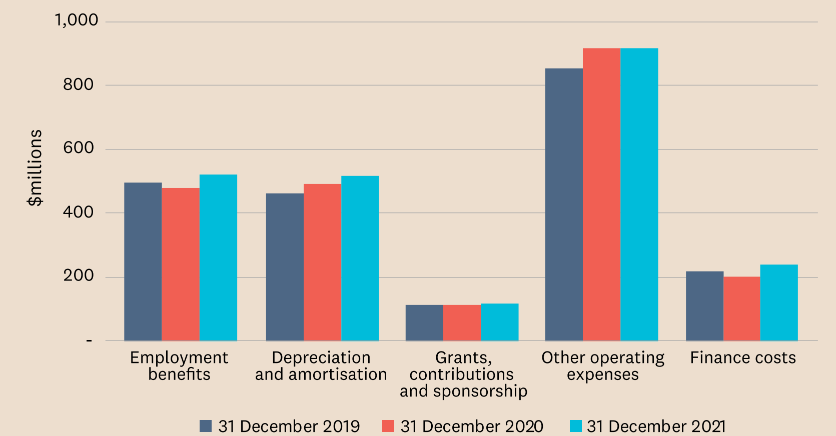
Delays to work programmes and reduced costs from cancelled or postponed events helped to reduce operating expenditure, as did progress with achieving efficiency savings, with $71 million in savings achieved.

There were however some increases in costs that had to be absorbed during the six months such as:

- $44 million in increased employee benefits due to annual salary increases of 1.6%, additional overtime for shift work to ensure physical distancing requirements were met, and higher annual leave entitlements as employees were unable to travel; and
- $34 million in increased operating expenses arising from a change in accounting treatment of contractual "extension of time" costs on capital projects.

Depreciation and amortisation costs were $27 million higher than the prior year, reflecting the increase in our assets from capital works and vested assets.

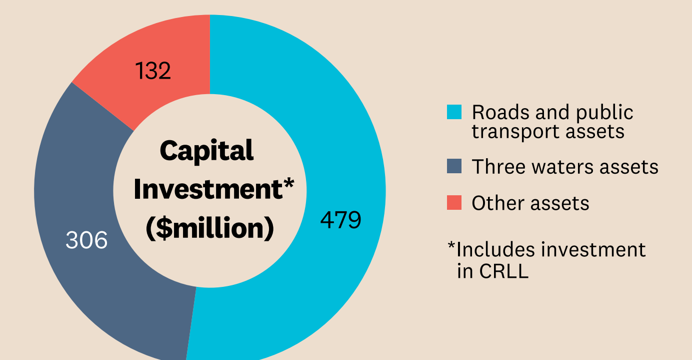
Higher market interest rates as well as higher levels of debt adversely impacted the group's financing costs by $39 million.



Overall operating expenses were $116 million higher than in the prior year, for the most part as a result of expected increases in activity, resulting in an operating surplus of $1,511 million before gains and losses.

Our financial position compared to 30 June 2021

The group's net assets increased by $2,544 million to $47,249 million. Most of the increase arose from the increase in assets, mainly receivables and prepayments, other financial assets, and property, plant and equipment. A slight increase in borrowings reflected the use of debt to grow the asset base.

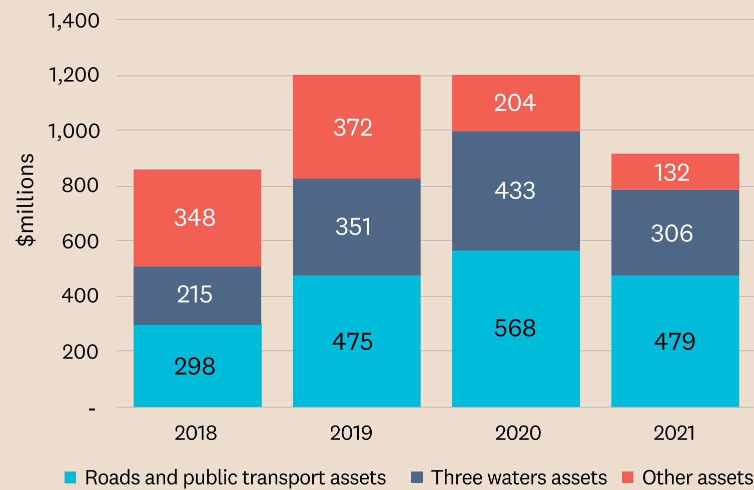


Receivables and prepayments

Rates receivable increased from $70 million to $1,186 million as rates revenue is recognised in full when annual rates notices are issued at the beginning of the financial year.

Property, plant and equipment

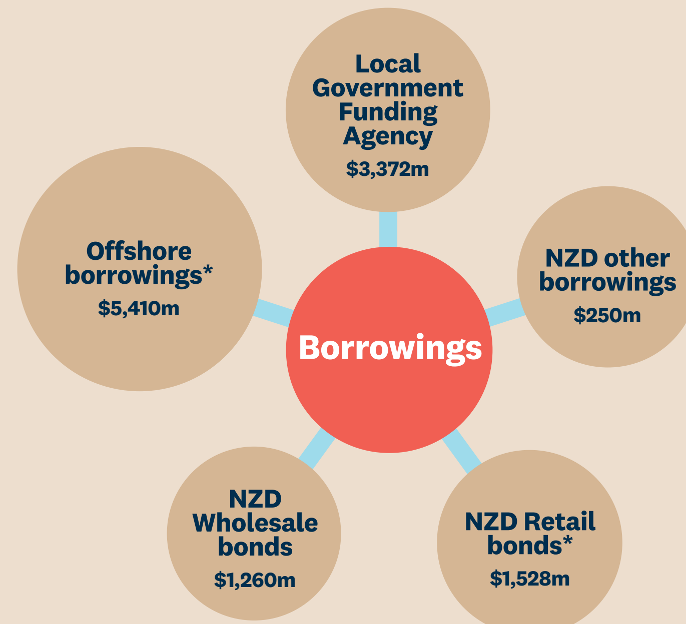
The COVID-19 pandemic significantly affected the delivery of our capital programmes because of supply chain challenges and skilled labour shortages. Further, the extended lockdown during the six months resulted in most construction work coming to a halt. Despite these challenges, the group's property, plant and equipment increased by $887 million, which includes vested assets of $360 million, and capital expenditure of $686 million (this does not include the investment in City Rail Link Limited), partly offset by depreciation, disposals and write-offs.



One of the group's key performance indicators is capital investment which includes spend on tangible and intangible assets plus our investment in City Rail Link Limited. It excludes vested assets. The capital investment of the group at 31 December 2021 was:

Net borrowings

Net borrowings (after deducting cash and cash equivalents, and term deposits of $1,353 million) increased marginally by $106 million to $10,473 million with funding applied to capital investment programmes. The increase included a NZ$300 million issuance of domestic bonds and a Euro 500 million green bond issuance – our first overseas issuance of green bonds. This increase was partly offset by repayments of matured borrowings, and an increase of $1,027 million in cash holdings and term deposits. Total borrowings for the group comprised:



*NZD Retail bonds and Offshore borrowings include green bonds of $1,148m and $826m, respectively

Our cash flows compared to the same period last year

With the ongoing uncertainty in global financial markets due to the COVID-19 pandemic, management took a cautionary approach to liquidity management.

Measures adopted included increasing cash holdings and pre-funding March and April 2022 borrowings repayments as well as certain capital expenditure. As noted in the Net borrowings section above, the overall effect was an increase in borrowings, cash and cash equivalents, and term deposits.

Cash inflows from operating activities

The $67 million decrease in operating cash inflows was mainly as a result of the cost of increased activities along with the drop in grants and subsidies as well as fees and user charges.

Cash outflows from investing activities

The pre-funding of debt repayments and capital expenditure resulted in an increase in term deposits, reported within the $787 million increase in acquisition of other financial assets. This was partly offset by a $290 million decrease in cash outflows from the acquisition of property plant and equipment – a significant decrease because of the extended COVID-19 lockdown.

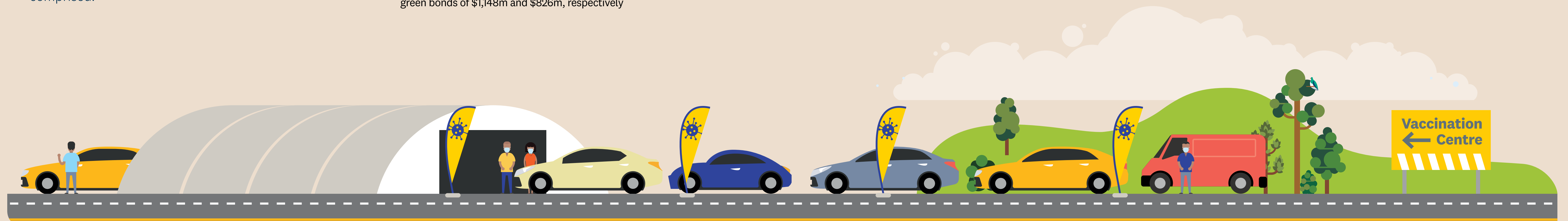
Cash inflows from financing activities

Pre-funding resulted in an increase in net cash inflows from financing activities of $588 million.

Looking ahead

The group has responded to the challenges posed by our complex operating environment in the 10-year Budget 2021-2031 – our Recovery Budget.

The Recovery Budget includes a total capital investment in our city of $32 billion over the 10 years to enable continued delivery of key services, provide new and renewed assets, as well as helping stimulate the economic recovery of Auckland. The first six months into this 10-year period have been challenging with the growing adverse economic impacts of the COVID-19 pandemic. However, with the move to the COVID-19 Protection Framework (traffic light system) in early December, and the announcement of the progressive opening of international borders, Auckland Council is optimistic that we will be able to continue moving towards becoming a world-class, globally competitive and inclusive city.



Ngā tauāki ā-pūtea

Financial statements

▲ Te Komititanga redevelopment

Te tauākī mō te tōtōpūtanga o ngā pūtea whiwhi, o ngā whakapaunga pūtea hoki

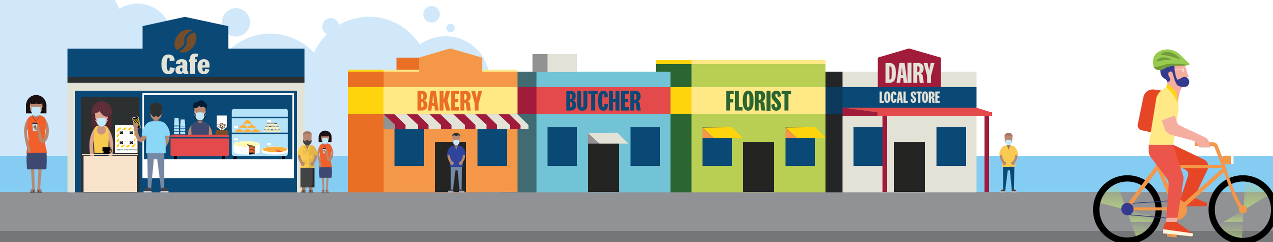
Statement of comprehensive revenue and expenditure

For the six months ended 31 December 2021

$MILLION	NOTE	UNAUDITED 6 MONTHS TO 31 DEC 2021	RESTATED 6 MONTHS TO 31 DEC 2020	RESTATED 12 MONTHS TO 30 JUN 2021
Revenue				
Rates	A1	2,111	1,973	1,976
Fees and user charges		610	636	1,263
Grants and subsidies		350	409	837
Development and financial contributions		103	108	226
Other revenue		289	305	632
Vested assets		360	158	376
Finance revenue measured using effective interest method		4	3	5
Total revenue excluding other gains		**3,827**	**3,592**	**5,315**
Expenditure				
Employee benefits expense		523	479	963
Depreciation and amortisation*		519	492	1,006
Grants, contributions and sponsorship		116	113	162
Other operating expenses*		919	916	1,866
Finance costs		239	200	408
Total expenditure excluding other losses		**2,316**	**2,200**	**4,405**
Operating surplus before other gains and losses		**1,511**	**1,392**	**910**
Net other gains and losses	A2	538	233	998
Share of net deficit in associates and joint ventures	A3	(90)	(4)	(28)
Surplus before income tax		**1,959**	**1,621**	**1,880**
Income tax expense*		13	18	43
Surplus after income tax		**1,946**	**1,603**	**1,837**
Other comprehensive revenue/(expenditure)				
Net gain on revaluation of property, plant and equipment		483	-	3,148
Tax on revaluation of property, plant and equipment		(1)	-	(263)
Fair value movement on revaluation of financial assets held at fair value through other comprehensive revenue and expenditure		114	265	175
Movement in cash flow hedge reserve		3	3	5
Tax movement in cash flow hedge reserve		(1)	(1)	-
Total other comprehensive revenue		**598**	**267**	**3,065**
Total comprehensive revenue		**2,544**	**1,870**	**4,902**

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

The accompanying notes to the financial statements form part of, and are to be read in conjunction with, these financial statements.



Te tauākī mō te tūāhua pūtea

Statement of financial position

As at 31 December 2021

$MILLION	NOTE	UNAUDITED 31 DEC 2021	RESTATED 31 DEC 2020	RESTATED 30 JUN 2021
Assets				
Current assets				
Cash and cash equivalents		541	598	300
Receivables and prepayments		1,603	1,573	554
Derivative financial instruments	B5	1	3	2
Other financial assets	B2	835	110	77
Inventories		55	54	50
Income tax receivable		2	2	4
Non-current assets held-for-sale		40	17	7
Total current assets		**3,077**	**2,357**	**994**
Non-current assets				
Receivables and prepayments		60	56	74
Derivative financial instruments	B5	394	490	426
Other financial assets	B2	2,189	2,167	2,075
Property, plant and equipment	B1	55,828	51,085	54,941
Intangible assets*		559	601	577
Investment property		703	628	704
Investment in associates and joint ventures		1,063	770	926
Other non-current assets		10	8	7
Total non-current assets		**60,806**	**55,805**	**59,730**
Total assets		**63,883**	**58,162**	**60,724**
Liabilities				
Current liabilities				
Bank overdraft		7	7	6
Payables and accruals		1,011	902	958
Employee benefits		111	96	107
Borrowings	B4	1,405	683	1,413
Derivative financial instruments	B5	43	3	37
Provisions	B3	142	141	132
Total current liabilities		**2,719**	**1,832**	**2,653**
Non-current liabilities				
Payables and accruals		184	144	176
Employee benefits		6	5	5
Borrowings	B4	10,414	10,050	9,274
Derivative financial instruments	B5	1,062	2,472	1,678
Provisions	B3	397	439	399
Deferred tax liabilities*		1,852	1,547	1,834
Total non-current liabilities		**13,915**	**14,657**	**13,366**
Total liabilities		**16,634**	**16,489**	**16,019**
Net assets		**47,249**	**41,673**	**44,705**
Equity				
Contributed equity		26,732	26,732	26,732
Accumulated funds*		5,940	3,934	4,194
Reserves		14,577	11,007	13,779
Total equity		**47,249**	**41,673**	**44,705**

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

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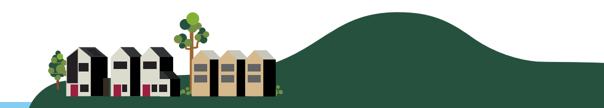


Te tauākī mō ngā panonitanga o te tūtanga

Statement of changes in equity

For the six months ended 31 December 2021

1 July 2021 to 31 December 2021 Unaudited

$MILLION	CONTRIBUTED EQUITY	ACCUMULATED FUNDS	RESERVES	TOTAL EQUITY
Balance as at 1 July 2021*	**26,732**	**4,194**	**13,779**	**44,705**
Surplus after income tax	-	1,946	-	1,946
Other comprehensive revenue	-	-	598	598
Total comprehensive revenue	**-**	**1,946**	**598**	**2,544**
Transfer (from)/to reserves	-	(200)	200	-
Balance as at 31 December 2021	**26,732**	**5,940**	**14,577**	**47,249**

1 July 2020 to 31 December 2020 Restated

$MILLION	CONTRIBUTED EQUITY	ACCUMULATED FUNDS	RESERVES	TOTAL EQUITY
Balance as at 1 July 2020*	**26,732**	**2,405**	**10,666**	**39,803**
Surplus after income tax*	-	1,603	-	1,603
Other comprehensive revenue	-	-	267	267
Total comprehensive revenue	**-**	**1,603**	267	**1,870**
Transfer (from)/to reserves	-	(74)	74	-
Balance as at 31 December 2020	**26,732**	**3,934**	**11,007**	**41,673**

1 July 2020 to 30 June 2021 Restated

$MILLION	CONTRIBUTED EQUITY	ACCUMULATED FUNDS	RESERVES	TOTAL EQUITY
Balance as at 1 July 2020*	**26,732**	**2,405**	**10,666**	**39,803**
Surplus after income tax*	-	1,837	-	1,837
Other comprehensive revenue	-	-	3,065	3,065
Total comprehensive revenue	**-**	**1,837**	**3,065**	**4,902**
Transfers (from)/to reserves	-	(48)	48	-
Balance as at 30 June 2021	**26,732**	**4,194**	**13,779**	**44,705**

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

The accompanying notes to the financial statements form part of, and are to be read in conjunction with, these financial statements.

Te tauāki mō te whiwhinga mai me te whakapaunga o te moni

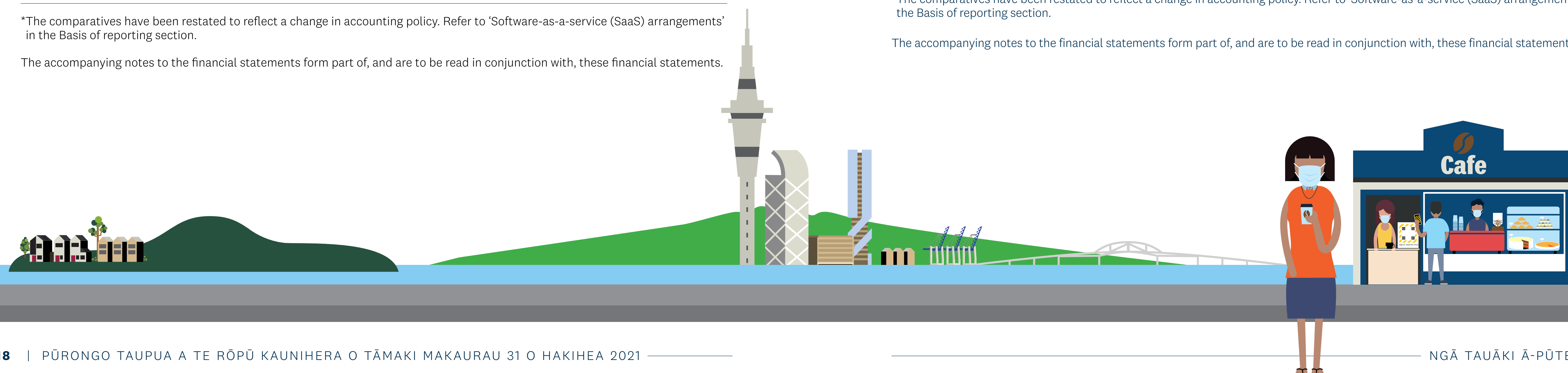
Statement of cash flows

For the six months ended 31 December 2021

$MILLION	NOTE	UNAUDITED 6 MONTHS TO 31 DEC 2021	RESTATED 6 MONTHS TO 31 DEC 2020	RESTATED 12 MONTHS TO 30 JUN 2021
Cash flows from operating activities				
Receipts from rates, grants and other services		2,635	2,585	4,988
Interest received		2	5	9
Dividends received		2	2	4
Payments to suppliers and employees*		(1,624)	(1,517)	(2,866)
Income tax (paid)/refund		(2)	-	9
Interest paid		(225)	(220)	(439)
Net cash inflow from operating activities	C2	**788**	**855**	**1,705**
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment, investment property and intangible assets		52	146	170
Acquisition of property, plant and equipment, investment property and intangible assets		(771)	(1,061)	(2,036)
Acquisition of other financial assets		(809)	(22)	(50)
Proceeds from sale of other financial assets		24	9	21
Investment in joint ventures		(230)	(210)	(395)
Advances to external parties		(6)	(25)	(21)
Net cash outflow from investing activities		**(1,740)**	**(1,163)**	**(2,311)**
Cash flows from financing activities				
Proceeds from borrowings		2,148	1,411	2,502
Repayment of borrowings		(1,002)	(789)	(1,929)
Receipts from derivative financial instruments		54	26	76
Payment for derivative financial instruments		(7)	(44)	(44)
Repayment of finance lease principal		(1)	-	-
Net cash inflow from financing activities		**1,192**	**604**	**605**
Net increase/(decrease) in cash and cash equivalents and bank overdraft		**240**	**296**	**(1)**
Opening cash and cash equivalents and bank overdraft		294	295	295
Closing cash and cash equivalents and bank overdraft		**534**	**591**	**294**

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

The accompanying notes to the financial statements form part of, and are to be read in conjunction with, these financial statements.



He pito kōrero mō ngā Tauākī Pūtea
Notes to the Financial Statements

Basis of reporting

Auckland Council (the 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.

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

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

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

Significant council-controlled organisations and subsidiaries comprise:

- Auckland Transport
- Auckland Unlimited Limited
- Panuku Development Auckland Limited
- Ports of Auckland Limited
- Regional Facilities Auckland
- Watercare Services Limited

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 group has designated itself as a public benefit entity (PBE) 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.

Statement of compliance

These interim financial statements are for the six months ended 31 December 2021 and have been prepared for the group only and are to be read in conjunction with the annual report for the year ended 30 June 2021. They are prepared in accordance with New Zealand Generally Accepted Accounting Practice and they comply with PBE IAS 34 *Interim Financial Reporting*. The financial results for the six-month period ended 31 December 2021 are unaudited, however they have been subject to a review on behalf of the Auditor-General, pursuant to the NZ SRE 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity.*

Basis of preparation

The interim financial statements are presented in New Zealand dollars (NZD), which is the functional currency of each of the group's entities and are rounded to the nearest million dollars unless otherwise stated. All items in the interim financial statements are stated exclusive of Goods and Services Tax (GST), except for receivables and payables which include GST.

The interim financial statements have been prepared on a going concern basis and the accounting policies applied are consistent with those used at 30 June 2021 except as described below.

Change in accounting policy

Software-as-a-Service (SaaS) arrangements

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

The IFRIC concluded that SaaS arrangements are service contracts providing the customer with the right to access the SaaS provider's application software over the contract period. Costs incurred to configure or customise

Basis of reporting (continued)

software in a cloud computing arrangement, can be recognised as intangible assets only if the activities create an intangible asset that the entity controls and the intangible asset meets the recognition criteria.

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

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

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

The group revised its accounting policy in relation to configuration and customisation costs incurred in implementing SaaS arrangements from 1 July 2021 to be consistent with the IFRIC agenda decision. The group applied the change in accounting policy retrospectively, and has restated comparative balances. The impact of the change in accounting policy is that some of previously capitalised intangible assets no longer meet the criteria for capitalisation and have therefore been expensed.

The impact on the financial statements is:

$MILLION	REPORTED 1 JUL 2020	ADJUSTMENTS	RESTATED 1 JUL 2020
Statement of financial position			
Intangible assets	684	(55)	**629**
Deferred tax liabilities	(1,538)	9	**(1,529)**
Accumulated funds	(2,451)	46	**(2,405)**

$MILLION	REPORTED 31 DEC 2020	ADJUSTMENTS	RESTATED 31 DEC 2020
Statement of financial position			
Intangible assets	663	(62)	**601**
Deferred tax liabilities	(1,554)	7	**(1,547)**
Accumulated funds	(3,989)	55	**(3,934)**
Statement of comprehensive revenue and expenditure			
Depreciation and amortisation	497	(5)	**492**
Other operating expenses	904	12	**916**
Income tax expense	16	2	**18**
Statement of cash flows			
Acquisition of property, plant and equipment, investment property and intangible assets	(1,068)	7	**(1,061)**
Payments to suppliers and employees	(1,510)	(7)	**(1,517)**

Basis of reporting (continued)

$MILLION	REPORTED 30 JUN 2021	ADJUSTMENTS	RESTATED 30 JUN 2021
Statement of financial position			
Intangible assets	651	(74)	**577**
Deferred tax liabilities	(1,840)	6	**(1,834)**
Accumulated funds	(4,262)	68	**(4,194)**
Statement of comprehensive revenue and expenditure			
Depreciation and amortisation	1,020	(14)	**1,006**
Other operating expenses	1,834	32	**1,866**
Income tax expense	39	4	**43**
Statement of cash flows			
Acquisition of property, plant and equipment, investment property and intangible assets	(2,051)	15	**(2,036)**
Payments to suppliers and employees	(2,851)	(15)	**(2,866)**

Implementation of amended accounting standards by the group

Amendments to PBE IPSAS 2 Cash Flow Statements

These amendments require additional disclosure that enable users of financial statements to evaluate cash and non-cash changes in liabilities arising from financing activities. It is effective for reporting periods beginning on or after 1 January 2021. The group has adopted the amendment from 1 July 2021. Additional disclosure is not included in this interim report as there are no material transactions of this nature to disclose.

Comparatives

Except as disclosed in the Change in accounting policy section above, there have been no changes to balances and disclosures reported in the prior period.

Significant accounting policies

Accounting policies that are considered critical to the portrayal of the group's financial condition and results, and contain judgements, estimates and assumptions about matters that are inherently uncertain have been included in the notes to these interim financial statements. These accounting policies are consistent with those applied in the restated comparative information.

Section A Financial performance

A1 Rates revenue

Rates are set annually by resolution of the council and relate to a particular financial year in accordance with the Local Government (Rating) Act 2002. Rates comprise general and targeted rates and are stated net of rates remissions.

Rates revenue is recognised at the date of issuance of ratings notice and is measured at the present value of cash received or receivable.

Sources of revenue are consistent with prior periods.

A2 Net other gains and losses

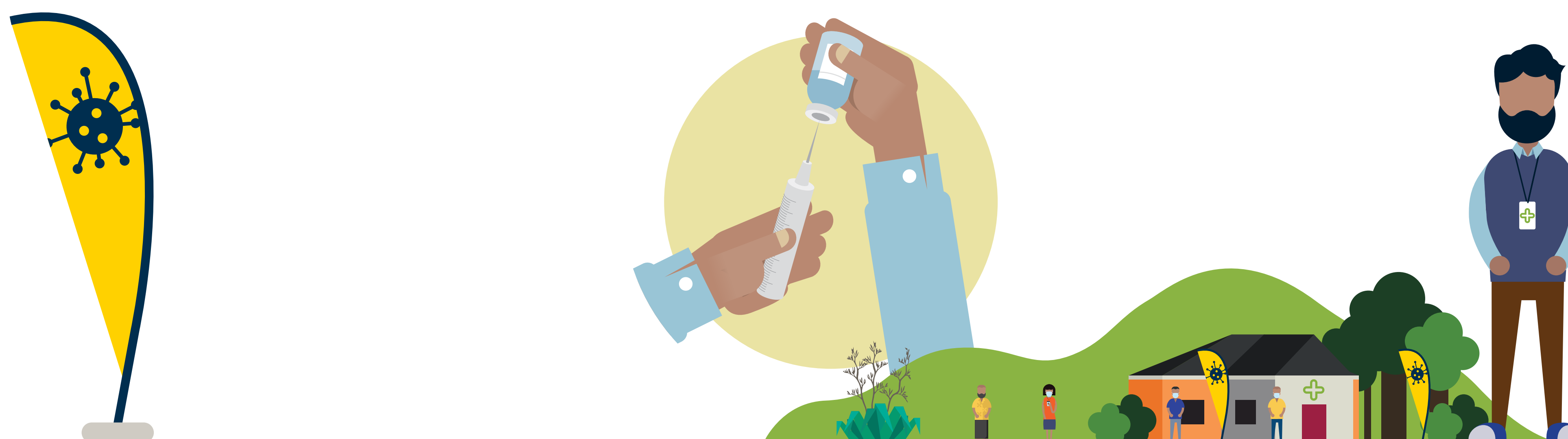
$MILLION	UNAUDITED 6 MONTHS TO 31 DEC 2021	UNAUDITED 6 MONTHS TO 31 DEC 2020	AUDITED 12 MONTHS TO 30 JUN 2021
Net gains on change in fair value of derivative financial instruments	578	88	780
Net foreign exchange gains recognised in surplus on financial instruments held at amortised cost	16	105	105
Other net (losses)/gains	(56)	40	113
Total net other gains and losses	**538**	**233**	**998**

Net gains mainly relate to fair value gains on the group's derivatives which resulted from increasing market interest rates in the six months to 31 December 2021.

A3 Share of deficit on joint ventures and associates

CRLL is a 50:50 joint venture between the group and the central government, established to build a twin-tunnel underground rail link below the Auckland city centre.

The $90 million share of net deficit in associates and joint ventures reflects the loss incurred by City Rail Link Limited mainly due to the transfer of $169 million of assets to the group, which are included in vested asset revenue.



Section B Financial position

B1 Property, plant and equipment

Accounting policy

The property, plant and equipment of the group are 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 council 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 or the council 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 and time allocations. 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.

B1 Property, plant and equipment (continued)

Accounting policy (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 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.

Revaluation

Infrastructure assets (except land), restricted assets (except improvements and specified cultural and heritage assets) and operational assets (except other operational assets) are revalued 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 at each reporting period 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' 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.

Extension of time costs

Constructions sites across New Zealand had to be closed during COVID-19 Alert Level 4 lockdowns. Contractors are entitled under the terms of their respective construction contract to recover time and additional costs resulting from the Alert Level 4 lockdowns.

Due to continuing uncertainty around the extent and duration of future lockdowns resulting from new COVID-19 variants, management has reconsidered the accounting for Extension of time costs incurred on capital projects during lockdowns. In prior years, these costs were capitalised in our financial statements. The group has now concluded that the costs relating to Alert Level 4 lockdowns are not directly attributable to the construction of an asset, as the costs do not directly relate to bringing the asset to their working condition and should have been expensed. The change in accounting treatment has been applied prospectively from 1 July 2021 as the financial impact is not considered material to the group. This change resulted in the group expensing $34 million of these costs within the current period's operating expenses ($6 million relates to prior years).

$MILLION	UNAUDITED 6 MONTHS TO 31 DEC 2021	UNAUDITED 6 MONTHS TO 31 DEC 2020	AUDITED 12 MONTHS TO 30 JUN 2021
Additions	1,014	1,123	2,495
Net disposals and transfers to non-current assets held-for-sale	(166)	(24)	(68)
Capital commitments	1,975	2,052	1,667
Share of joint ventures' (CRLL) capital commitments	646	1,020	827

There have been no material changes in fair value for property, plant and equipment between 30 June 2021 and 31 December 2021.

B2 Other financial assets

$MILLION	UNAUDITED AS AT 31 DEC 2021	UNAUDITED AS AT 31 DEC 2020	AUDITED AS AT 30 JUN 2021
Term deposits with greater than 90-day maturity	812	11	26
Other current financial assets	23	99	51
Total current other financial assets	**835**	**110**	**77**
Listed shares	2,092	2,068	1,979
Other non-current other financial assets	97	99	96
Total non-current other financial assets	**2,189**	**2,167**	**2,075**
Total other financial assets	**3,024**	**2,277**	**2,152**

With the ongoing uncertainty in global financial markets due to the COVID-19 pandemic, management took a cautionary approach to liquidity management. Measures adopted included increasing cash holdings and pre-funding March and April 2022 borrowings repayments as well as certain capital expenditure. This resulted in an $786 million increase in term deposits with a maturity greater than 90 days.

B3 Provisions

Accounting policy

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, and where 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.

The provision for weathertightness and associated defect claims decreased by $29 million to $279 million. This is represented by settlements of $14 million and a net reversal of $15 million recognised previously.

There have been no other material changes in provisions between 30 June 2021 and 31 December 2021.

B4 Borrowings

Accounting policy

Borrowings are initially recognised at face value plus transaction costs and are subsequently measured at amortised cost using the effective interest method.

Foreign currency borrowings are translated into NZD using the spot rates at balance date. Foreign exchange gains and losses resulting from the settlement of borrowings and from translation are recognised in the surplus or deficit.

$MILLION	UNAUDITED AS AT 31 DEC 2021	UNAUDITED AS AT 31 DEC 2020	AUDITED AS AT 30 JUN 2021
Borrowings	11,819	10,733	10,687
Add bank overdraft	7	7	6
Less cash and cash equivalents	(541)	(598)	(300)
Less term deposits with greater than 90-day maturity	(812)	(11)	(26)
Total borrowings and bank overdraft less cash and cash equivalents and term deposits	**10,473**	**10,131**	**10,367**

Net borrowings increased by $106 million with the $1.1 billion increase in total borrowings since 30 June 2021. This was partly offset by higher cash holdings of $241 million and term deposits of $786 million. The increase in total borrowings is largely from two Green Bond issuances, an offshore issue raising Euro 500 million (NZ$808 million), and a domestic issue raising $300 million.

There were no defaults or breaches on any borrowing arrangement during the period (31 December 2020: nil; 30 June 2021: nil).

B5 Derivative financial instruments

Accounting policy

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 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 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.

The group entered into derivative financial instrument contracts to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with approved financial risk management policies.

B5 Derivative financial instruments (continued)

FAIR VALUE ($MILLION)	UNAUDITED AS AT 31 DEC 2021		UNAUDITED AS AT 31 DEC 2020		AUDITED AS AT 30 JUN 2021	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest rate swaps						
Cash flow hedge	-	1	-	7	-	4
Fair value through surplus or deficit	111	910	73	2,340	81	1,559
Forward foreign currency contracts						
Fair value through surplus or deficit	-	1	-	1	-	-
Cross-currency interest rate swaps						
Fair value through surplus or deficit	282	193	420	127	347	152
Basis swaps						
Fair value through surplus or deficit	2	-	-	-	-	-
Total derivative financial instruments	**395**	**1,105**	**493**	**2,475**	**428**	**1,715**

NOTIONAL ($MILLION)	UNAUDITED AS AT 31 DEC 2021		UNAUDITED AS AT 31 DEC 2020		AUDITED AS AT 30 JUN 2021	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest rate swaps	2,440	9,879	1,534	10,154	1,924	9,639
Forward foreign currency contracts	11	9	-	26	2	11
Cross-currency interest rate swaps	2,938	2,446	2,970	1,606	2,970	1,606
Basis swaps	808	-	-	-	-	-
Total derivative financial instruments	**6,197**	**12,334**	**4,504**	**11,786**	**4,896**	**11,256**

Section C Other disclosure

C1 Contingencies

Accounting policy

A contingent liability is a possible or present obligation that arises from past events, but is not recognised because an outflow of resources is not probable or inability to measure reliably.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by one or more uncertain future events not wholly within the control of the entity.

The group and the council do not recognise contingent liabilities and contingent assets in the financial statements due to their uncertainty or because they cannot be reliably measured. However, they are disclosed as follows:

- Contingent liabilities are disclosed unless the possibility that these will crystallise is remote; and
- Contingent assets are only disclosed when it is probable that they will crystallise.

Contingent liabilities and assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

QUANTIFIABLE CONTINGENT LIABILITIES

Local Government Funding Agency

The group is a shareholder and guarantor of the Local Government Funding Agency (LGFA). The group's cross-guarantee on the LGFA's other borrowings was $12.0 billion at 31 December 2021 (30 June 2021: $10.0 billion). The group considers the risk of the LGFA defaulting on repayment of interest or capital to be very low and accordingly the expected credit loss on this guarantee has been assessed as immaterial.

UNQUANTIFIABLE CONTINGENT LIABILITIES

City Rail Link Limited

CRLL have publicly advised they have a pending claim with respect to COVID-19 related matters. The impact of the COVID-19 related matters is uncertain and, although not quantified at this point, they may well be significant. At this point, and after making due enquiry, the board of CRLL are of the view that they cannot reliably estimate what the quantum of the claim, appropriately supported by evidence, will be. CRLL will shortly engage in a process with the Link Alliance that will provide the basis of any claim and includes CRLL's appointment of independent assessors. The output of that process will then inform CRLL's approach to the sponsors and funders.

There have been no other material changes in contingencies between 30 June 2021 and 31 December 2021.

C2 Reconciliation of surplus after income tax to net cash inflow from operating activities

$MILLION	UNAUDITED 6 MONTHS TO 31 DEC 2021	RESTATED 6 MONTHS TO 31 DEC 2020	RESTATED 12 MONTHS TO 30 JUN 2021
Surplus after income tax*	**1,946**	**1,603**	**1,837**
Add/(less) non-cash items:			
Depreciation and amortisation*	519	492	1,006
Vested assets	(360)	(158)	(376)
Other non-cash revenue	(437)	(238)	(966)
Add/(less) items classified as investing or financing activities	**-**	**(30)**	**(18)**
Add/(less) movements in working capital items*	**(880)**	**(814)**	**222**
Net cash inflow from operating activities	**788**	**855**	**1,705**

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

C3 Other disclosures

Three water reforms

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

Auckland's stormwater network is currently owned and operated by Auckland Council, and its drinking water and wastewater networks are owned and operated by Watercare Services Limited. High level guidance has been issued that outlines which assets would transfer to the new entity, however there is not yet enough clarity to be able to quantify the financial impacts on asset values, revenue and associated debt with any certainty. As at 31 December 2021, the total stormwater infrastructure assets were $5,494 million, and Watercare's infrastructure assets were $10,364 million. Not all of these assets may transfer although the majority will, and other non-infrastructure assets may also transfer. The fair values of these assets have not been adjusted to reflect the transfer of assets. Once the transfer has been legislated and details around the mechanism for the transfer of the water assets and any compensation has been established, the values of these assets may require adjustment.

Sale of Amenities and Infrastructure Maintenance Services (AIM Services)

AIM Services is a division of Auckland Council. It provides services to the council and other organisations from Manukau, through central Auckland, to west Auckland with teams also on Waiheke and Great Barrier islands. Services provided include, but are not limited to, arboriculture, cleaning, grounds, landscaping, stormwater maintenance and litter control and removal.

On 10 December 2021, Auckland Council entered into a sale and purchase agreement to sell the business assets and contracts of AIM Services, and transfer the staff to Programmed Facility Management NZ Limited (Programmed). Auckland Council and Programmed are now working on the transition process for the successful transfer of the business and staff. Completion of the transaction is expected to occur by early April 2022.

As at 31 December 2021, the assets of AIM Services were classified as held for sale. As AIM Services does not constitute a major line of business for the group, it has not been classified as a discontinued operation.

C4 Events after the reporting period

There were no material events after the reporting period that would require adjustment or disclosure by the group.

Pūrongo nā te kaiarotake motuhake

Independent reviewer's report

CONTROLLER AND AUDITOR-GENERAL
Tumuaki o te Mana Arotake

Independent Auditor's Review Report

To the readers of Auckland Council Group's Interim Financial Statements for the six months ended 31 December 2021

I am the auditor of Auckland Council and its subsidiaries (together, the Auckland Council Group). I have used my staff and appointed auditors and their staff to carry out a review of the Auckland Council Group's interim financial statements for the six months ended 31 December 2021 (hereafter the interim financial statements).

Conclusion

I have reviewed the interim financial statements of the Auckland Council Group on pages 16 to 30, which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive revenue and expenditure, statement of changes in equity and statement of cash flows for the six months ended on that date, and the notes, including a summary of significant accounting policies and other explanatory information.

Based on my review, nothing has come to my attention that causes me to believe that the Auckland Council Group interim financial statements do not present fairly, in all material respects, the financial position of the Auckland Council Group as at 31 December 2021, and its financial performance and cash flows for the six months ended on that date, in accordance with PBE IAS 34 *Interim Financial Reporting*.

Basis for conclusion

I conducted my review in accordance with NZ SRE 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity*. My responsibilities are further described in the *My Responsibilities for the Review of the Interim Financial Statements* section of my report.

My staff, and appointed auditors and their staff are independent of the Auckland Council Group in accordance with the Auditor-General's ethical requirements relating to the audit of the annual financial statements, which incorporate the independence requirements issued by the New Zealand Auditing and Assurance Standards Board, and I have fulfilled my other ethical responsibilities in accordance with these requirements.

In addition to this review, I and my staff, and appointed auditors and their staff have carried out, or commenced the following engagements in the past year:

- an assurance engagement in relation to the Auckland Council's foreign borrowings programme;
- a limited assurance engagement in relation to the Auckland Council's Debenture Trust Deed and Master Trust Deed reporting certificates;
- a negative pledge agreed-upon-procedures engagement for Ports of Auckland Limited;

- other engagements for Watercare Services Limited in the areas of probity services, quality assurance review of the Central Interceptor project, administrative and other advisory services to the Corporate Taxpayers Group, of which Watercare Services Limited is a member, and limited assurance on selected non-financial information, which are compatible with those independence requirements; and
- a performance audit on the governance and accountability arrangements for the City Rail Link Project and related works.

These matters have not impaired my independence as auditor of the Auckland Council Group. Other than these engagements, and in exercising my functions and powers under the Public Audit Act 2001 as the auditor of public entities, I have no relationship with, or interests in the Auckland Council Group.

Emphasis of matters

Without modifying my conclusion, I draw attention to the following matters:

The impact of Covid-19 on the City Rail Link project

Note C1 on page 29 outlines that City Rail Link Limited has a pending claim with respect to Covid-19 related matters. The Auckland Council Group is unable to reliably estimate the quantum of the claim because the outcome of the claim is uncertain. However, the amount may be significant.

Three waters reforms

Note C3 on page 30 outlines that the Government announced it will introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities with effect from 1 July 2024. The impact of these reforms, once legislated, will mean that the Auckland Council Group will no longer deliver three waters services beyond 30 June 2024.

The Council's responsibilities for the interim financial statements

The Council is responsible, on behalf of the Auckland Council Group, for the preparation and fair presentation of these interim financial statements in accordance with PBE IAS 34 *Interim Financial Reporting*.

The Council is responsible for such internal control as it determines is necessary to enable it to prepare interim financial statements that are free from material misstatement, whether due to fraud or error.

My responsibilities for the review of the interim financial statements

My responsibility is to express a conclusion on the interim financial statements based on my review. NZ SRE 2410 (Revised) requires me to conclude whether anything has come to my attention that causes me to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with PBE IAS 34 *Interim Financial Reporting*.

A review of the interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. I perform procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, I do not express an audit opinion on these interim financial statements.

Greg Schollum
Deputy Auditor-General
Wellington, New Zealand
25 February 2022

Ngā rerekētanga matua i waenga i ngā Paerewa Kaute o IFRS me PBE

Main differences between IFRS and PBE Accounting Standards

Introduction

Under the New Zealand Accounting Standards Framework, public sector public benefit entities apply PBE Accounting Standards. The New Zealand Accounting Standards Framework defines public benefit entities (PBEs) as reporting entities “whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders”. Many public sector entities are classified as PBEs. The Auckland Council Group (the group) is classified as a public sector PBE for financial reporting purposes and therefore the financial statements of the group have been prepared in accordance with PBE Accounting Standards.

The PBE Accounting Standards are primarily based on International Public Sector Accounting Standards (IPSAS). IPSAS are based on International Financial Reporting Standards (IFRS) but are adapted to a public sector context where appropriate, by using more appropriate terminology and additional explanations where required. For example, IPSAS introduces the concept of service potential in addition to economic benefits in the asset recognition rules, and provides more public sector specific guidance where appropriate. This is in contrast with IFRS that are written for the for-profit sector with capital markets in mind.

The key differences in recognition and measurement between PBE Accounting Standards applicable to the group and IFRS (applicable to annual periods beginning on or after 1 July 2021) are set out below. Differences that impact only on presentation and disclosure have not been identified.

PBE Accounting Standards with comparable IFRS equivalent

Formation of Auckland Council Group

PBE

PBE IFRS 3 Business Combinations contains a scope exemption for business combinations arising from local authority reorganisations. This scope exemption is carried forward from NZ IFRS 3 (PBE) Business Combinations, the standard that was applicable to the group at the time it was formed on 1 November 2010 as a result of the amalgamation of eight predecessor Auckland local authorities.

Under the exemption, all assets and liabilities of the predecessor local authorities were recognised by the group using the predecessor values of those assets and liabilities. The initial value at which those assets and liabilities were recognised by the group is deemed to be their cost for accounting purposes.

IFRS

Without the scope exemption, the amalgamation of the predecessor local authorities into the group would have been accounted for as a business combination under IFRS 3 applying the acquisition method. Under the acquisition method, an acquirer would have been identified and all of the identifiable assets and liabilities acquired would have been recognised at fair value at the date of acquisition.

Impact

The impact of the above accounting treatment is that the carrying value of the assets and liabilities received were not remeasured to fair value and no additional assets and liabilities such as goodwill and contingent liabilities, or a discount on acquisition were recognised as would have been required if the transaction was accounted for as a business combination under IFRS 3.

Business combination

PBE

PBE IPSAS 40 PBE Combinations has a broader scope compared to IFRS 3 Business Combinations. The scope of PBE IPSAS 40 includes combinations that are acquisitions and combinations that are amalgamations, such as combinations under common control.

Acquisitions are accounted for using the acquisition method consistent with the requirements of IFRS 3.

PBE IPSAS 40 contains additional guidance on the accounting for amalgamations. Amalgamations are accounted for using the modified pooling of interest method, where the resulting entity recognises the combining operations’ assets, liabilities at their historical values as at the amalgamation date.

IFRS
All transactions in the scope of IFRS 3 are accounted for applying the acquisition method.

IFRS 3 does not contain guidance on the accounting for amalgamations. Therefore, under IFRS, an entity would need to adopt a policy on accounting for combinations under common control, either applying acquisition accounting or predecessor accounting.

Impact
Accounting for acquisitions is similar under both IFRS 3 and PBE IPSAS 40.

The accounting for amalgamations is also similar under PBE IPSAS 40 and IFRS, if, under IFRS, the entity's accounting policy for such transactions is to apply predecessor accounting.

Property, plant and equipment
PBE
In accordance with PBE IPSAS 17 Property, Plant and Equipment, PBEs are required to account for revaluation increases and decreases on an asset class basis rather than on an asset-by-asset basis.

IFRS
IFRS requires asset revaluations to be accounted for on an asset-by-asset basis.

Impact
Decreases on revaluation will be recognised in operating surplus except to the extent there is sufficient asset revaluation reserves surplus relating to the same class of assets under PBE Accounting Standards, and relating to the same asset under IFRS. This difference could result in higher operating results under PBE Accounting Standards where there is a decrease in the carrying value of an asset. This is because, to the extent that there is sufficient revaluation surplus in respect of the same asset class (as opposed to the same asset), the group recognises a revaluation decrease in asset revaluation reserves.

Borrowing costs
PBE
PBE IPSAS 5 Borrowing Costs permits PBEs to either capitalise or expense borrowing costs incurred in relation to qualifying assets. A qualifying asset is defined in PBE IPSAS 5 "as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale". The group's accounting policy is to expense all borrowing costs. As a consequence, borrowing costs are not included in the original cost or revaluations of qualifying assets.

IFRS
IAS 23 Borrowing Costs requires capitalisation of borrowing costs incurred in relation to qualifying assets. The definition of a qualifying asset is identical to that definition in PBE IPSAS 5.

Impact
This difference results in the group's property, plant and equipment value, and subsequent depreciation expense, being lower than they would be under IFRS. In addition, there is higher interest expense in the periods in which qualifying assets are constructed.

Impairment of Assets
PBE
PBEs apply PBE IPSAS 21 Impairment of Non-Cash-Generating Assets or PBE IPSAS 26 Impairment of Cash-Generating Assets, as appropriate to determine whether a non-financial asset is impaired. PBEs are therefore required to designate non-financial assets as either cash-generating or non-cash-generating. Cash-generating assets are those that are held with the primary objective of generating a commercial return. Non-cash-generating assets are assets other than cash-generating assets.

The PBE Accounting Standards require the value in use of non-cash-generating assets to be determined as the present value of the remaining service potential using one of the following: the depreciated replacement cost approach; the restoration cost approach; or the service units approach.

IFRS
FRS does not provide specific guidance for the impairment of non-cash-generating assets. The value in use of an asset or a cash generating unit is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Impact
Assets with future economic benefits that are not primarily dependent on the asset's ability to generate cash and may not be impaired under PBE Accounting Standards because of the asset's ability to generate service potential might be impaired under IFRS due to limited generation of cash flows. The group's asset values may therefore be higher under PBE Accounting Standards because some impairment may not be required to be recognised, that would be required to be recognised under IFRS. Further, the value in use of an asset may be different under PBE Accounting Standards due to differences in calculation methods.

PBE Accounting Standards that have no IFRS equivalent / IFRS equivalent is not comparable
The following standards provide guidance on the same or similar topics but are not directly comparable. The comparison below identifies the key recognition and measurement difference.

Revenue from non-exchange transactions
PBE
The PBE Accounting Standards require revenue to be classified as revenue from exchange or non-exchange transactions. Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange. Non-exchange transactions are transactions that are not exchange transactions.

PBE IPSAS 23 Revenue from Non-Exchange Transactions deals with revenue from non-exchange transactions. The group's non-exchange revenue includes revenue from general rates, fuel tax, grants and subsidies.

Fees and user charges derived from activities that are partially funded by general rates are also considered to be revenue arising from non-exchange transactions.

The group recognises an inflow of resources from a non-exchange transaction as revenue except to the extent that a liability is also recognised in respect of the same inflow. A liability is recognised when a condition is attached to the revenue that requires that revenue to be returned unless it is consumed in the specified way. As the conditions are satisfied, the liability is reduced and revenue is recognised.

IFRS

IFRS does not have a specific standard that deals with revenue from non-exchange transactions. IAS 20 Accounting for Government Grants and Disclosure of Government Assistance contains guidance relating to the accounting for government grants. Under IAS 20, government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate. In the case of grants related to assets, IAS 20 results in setting up the grant as deferred income or deducting it from the carrying amount of the asset.

Impact
The group's accounting policy may lead to earlier recognition of revenue from non-exchange transactions than if it was recognised under IAS 20. It may also result in differences in asset values in relation to grants related to assets.

Under PBE IPSAS 23, the timing of recognising the group's rates revenue is at the date of issuing the rating notices for the annual general rate charge resulting in the entire rates revenue being recognised in the interim financial statements of the group. This is likely to be an earlier recognition than if this revenue was accounted for under IFRS.

Revenue from exchange transactions
PBE
As discussed above, the PBE Accounting Standards require revenue to be classified as revenue from exchange or non-exchange transactions.

PBE IPSAS 9 Revenue from Exchange Transactions deals with revenue from exchange transactions. The group's exchange revenue includes revenue from fees and user charges (water and wastewater charges, development contributions, infrastructure charges, port operations, consents, licences and permits) and revenue from sales of goods.

The group recognises revenue related to services on a percentage of completion basis over the period of the service supplied. Revenue from sale of goods is recognised when the substantial risks and rewards of ownership have been passed to the buyer.

IFRS
introduces a single revenue model for contracts with customers. It does not distinguish between sales of goods and services. It defines transactions based on performance obligations, which are promises to transfer goods or services in a contract with a customer.

The core principle of the standard is that revenue is recognised as a result of the entity satisfying performance obligations or promises to transfer goods or services at an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. These may be satisfied over time versus at a point in time based on when control of the good or service transfers to a customer.

Impact
The group's accounting policy may result in a different timing of recognition of revenue from exchange transactions compared to IFRS 15.

For example, IFRS 15 contains more detailed guidance on identifying distinct performance

obligations in a contract and allocating the consideration to these based on the standalone selling price of the performance obligations. This may result in some revenue recognised earlier or later than under PBE IPSAS 9.

Further, IFRS 15 contains detailed guidance on the accounting treatment of variable consideration which may result in change in timing of recognising revenue related to items such as rebates and price concessions.

The impact of these differences may result in revenue recognised earlier/later in the contract period however it should not impact on the total revenue recognised during the contract term.

Service Concession Arrangement (also known as Public Private Partnership Arrangements)
PBE
PBE IPSAS 32 Service Concession Arrangements deals with the accounting for service concession arrangements from the grantor's perspective. Service concession arrangements are more commonly known as Public Private Partnership (PPP) arrangements. Broadly, service concession arrangements are arrangements between the public and private sectors whereby public services are provided by the private sector using public infrastructure (service concession asset).

PBE IPSAS 32 requires the grantor (public entity) to recognise the service concession asset and a corresponding liability on its statement of financial position. The liability can be a financial or other liability or a combination of the two depending on the nature of the compensation of the operator.

A financial liability is recognised if the grantor compensates the operator by the delivery of cash or another financial asset. A non-financial liability is recognised if a right is granted to the operator to charge the users of the public service related to the service concession asset (liability for unearned revenue).

IFRS
IFRS contains no specific guidance addressing the accounting by the grantor (public entity) in a service concession arrangement. However, IFRS contains guidance for the operator's accounting (private entity).

Impact
Applying IFRS to service concession arrangements would not result in a significant impact on the group's financial position or financial performance as, in absence of specific guidance in NZ IFRS, prior to the adoption of PBE Accounting Standards, NZ practice has been to 'mirror' the accounting treatment of the private entity under IFRS which is consistent with the requirements of the PBE Accounting Standards.

Fair Value Measurement
PBE
There is no specific standard in the PBE Accounting Standards, however a number of PBE Accounting Standards contain guidance on the measurement of fair value in specific context (for example PBE IPSAS 17 Property, Plant and Equipment and PBE IFRS 9 Financial Instruments).

IFRS
IFRS 13 Fair Value Measurement does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRS.

Impact
The application of IFRS 13 may result in differences in the measurement of certain property, plant and equipment compared to PBE IPSAS 17 and financial assets and liabilities compared to PBE IFRS 9.

Lease accounting

PBE
Under PBE IPSAS 13 Leases, the group's current accounting policy is to make a distinction between finance leases and operating leases.

Finance leases are recognised on the statement of financial position.

Operating leases are not recognised on the statement of financial position, instead, payments are recognised in the statement of financial performance on a straight-line basis or another systematic basis that is more representative of the pattern of the lessee's benefit.

IFRS

IFRS 16 Leases requires the lessee to recognise almost all lease contracts on the statement of financial position; the only optional exemptions are for certain short-term leases and leases of low-value assets.

There is no significant difference in respect of the accounting treatment applicable to lessors, or for lessees in contracts classified as finance leases under PBE IPSAS 13.

Impact

Where the group is the lessee in contracts classified as operating leases under its current accounting policy, applying IFRS 16 would result in the group having to recognise a 'right-of-use' asset (that is, the asset that reflects the right to use the leased asset) and a corresponding lease liability (obligation to make lease payments) on its statement of financial position.

Further, applying IFRS 16 would result in the group having to recognise interest expense on the lease liability and depreciation on the 'right-of-use' asset. Due to this, for lease contracts currently classified as operating leases, the total amount of expenses at the beginning of the lease period would be higher than under the current accounting policy of the group.

There is no significant difference where the group is a lessor in the lease arrangement or a lessee in contracts classified as a finance lease under PBE IPSAS 13.

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