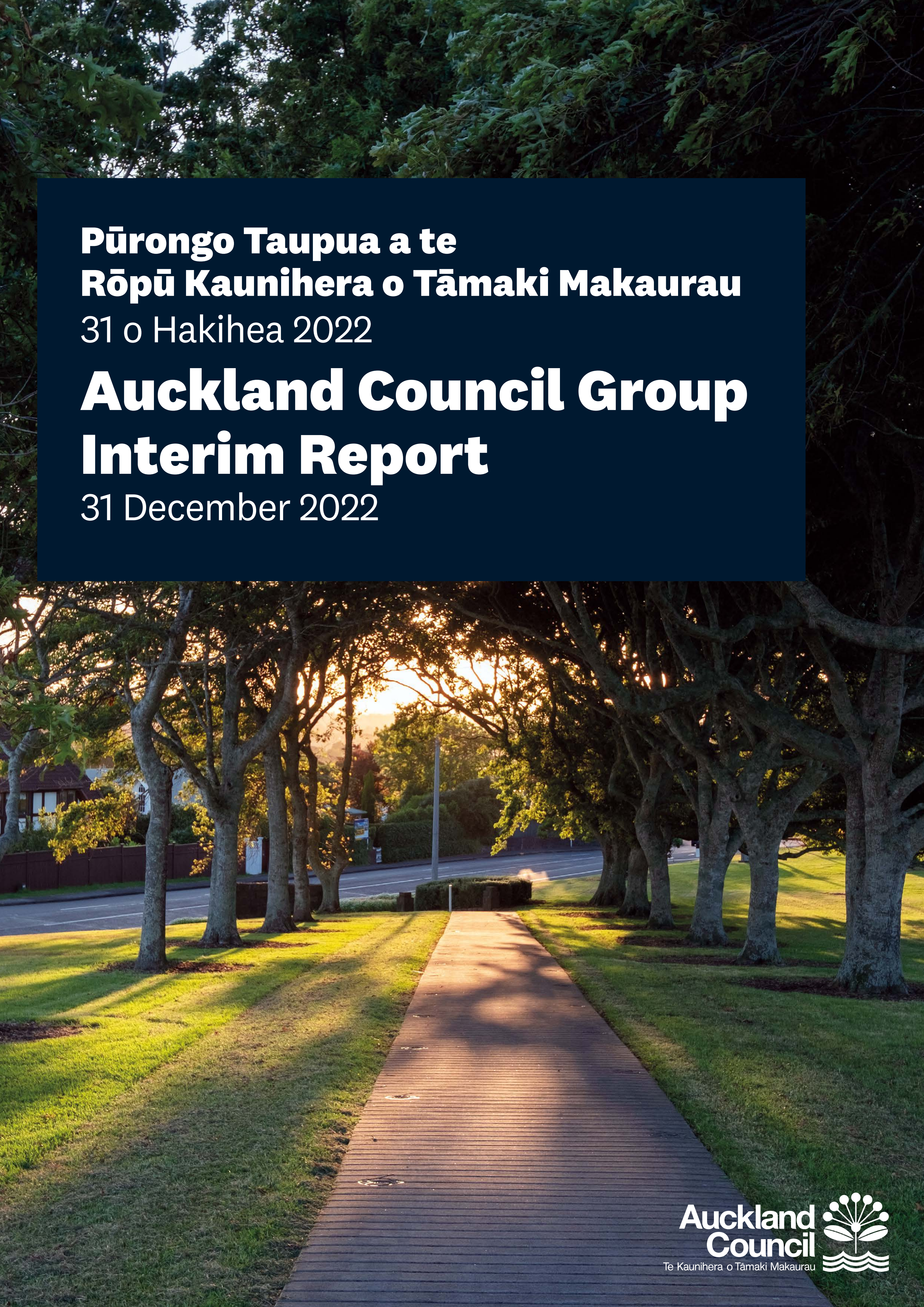
Pūrongo Taupua a te Rōpū Kaunihera o Tāmaki Makaurau

31 o Hakihea 2022

Auckland Council Group Interim Report

31 December 2022



Auckland Council
Te Kaunihera o Tāmaki Makaurau

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 ō 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.
Tūwherahia ō ringa, kūmea mai ki 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.

Te Rārangi Kaupapa

Contents

He karere nā te koromātua

Message from the mayor


Wayne Brown.

Auckland Council Group (the group) has begun its recovery from the slump caused by the COVID-19 pandemic, with our half-year financial accounts showing the benefits of increased economic activity following the prior-year lockdowns.

Over time, the group has expanded its range of services and assets and is now paying for the costs of these services along with the costs to maintain and renew assets. Add to that rapidly rising inflation and interest rates, as well as a cost-of-living crisis. It is clear that we need to make sure we can manage our way through an uncertain financial future.

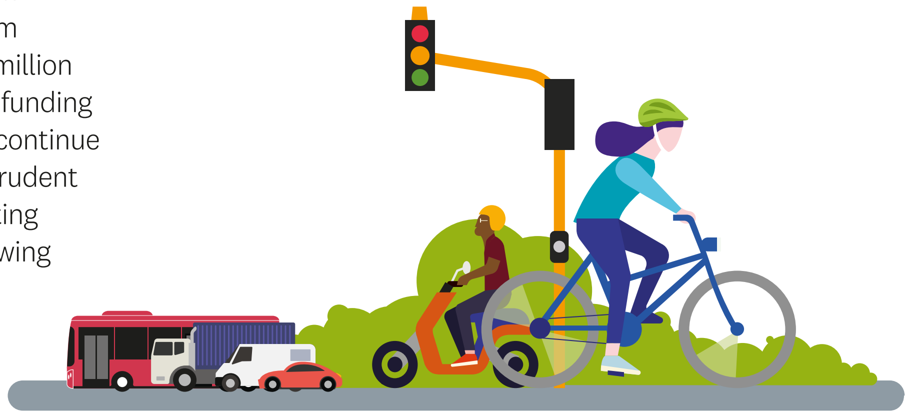
This was made even more urgent with the recent severe weather events which hit Auckland after the December 31 balance date of this interim report. It is too early to know the exact costs of these events, but they will add additional costs in the second half of the financial year. This means increased spending to deal with the immediate flood response and recovery work, as well as costs to repair or renew some of the assets that the group owns or manages. It will likely mean higher debt going into 2023/2024 and therefore higher interest costs. Some of these costs could be substantial.

Since I took office in October 2022, I have been aware of the need to reduce the complexity of council and spending on less important services, and this interim report reinforces that. It is clear that we have to find ways to reduce costs and re-prioritise services and projects to ensure that they meet the needs of Aucklanders and improve our region's resilience.

Our latest results were bolstered by some one-off revenues, such as the $81 million received from the central government's Three Waters Reform Better Off Support funding package and $48 million from Waka Kotahi's top up and half-price fare funding following the pandemic. However, we cannot continue to rely on these subsidies. So, maintaining a prudent and flexible financial approach, as well as cutting unnecessary or inefficient spending and reviewing poorly performing assets, will be our ongoing approach.

These half-year results show a good start to the recovery from COVID-19 and its associated economic impacts. However, there were still some lingering impacts such as seasonal illness and supply chain challenges, labour shortages and increased construction and other costs. This impacted our ability to progress what we had planned, impacting many capital projects across the group, however, to a lesser extent than in the prior year. We delivered a capital investment of $1.2 billion which is a third more than the year prior. Some highlights were completion of the Eastern Busway between Panmure and Pakuranga, progressing the Central Interceptor project, adding 35 zero emissions buses and planting 85,000 trees along our waterways. The recent storm events are a call to action. It is imperative that we continue to build resilience to climate change by increasing the resilience of our three waters networks and reducing our emissions.

The interim results show finance costs up $19 million for the half year to $258 million. This is in part due to higher debt levels due to the increased investment, but also due to higher interest rates on the unhedged part of our debt. We need to limit any extra borrowing to keep our interest costs under control.



The group's staff costs rose, with total employee benefits up $34 million to $557 million compared with a year earlier. While there are a mix of reasons for this, like wages and salaries going up with the increasing cost of living and temporary staff being brought in to cover vacancies due to COVID-19, I have made it clear to the group's management that excessive spending and management costs must be reduced on top of the savings efficiencies already being made. The group must focus on the services that matter to Aucklanders and provide those services in the most effective and efficient ways. Council needs to review the services being provided, to consider whether some of those services may no longer be relevant to Aucklanders or may already be provided or funded by agencies such as the central government, non-government organisations or private-sector groups. Debt must be controlled within prudent limits and a focus retained on building a resilient and thriving region whilst providing the essential services to Aucklanders.

Wayne Brown
Mayor of Auckand
27 February 2023

He karere nā te tumu whakarae

Message from the chief executive


Jim Stabback.

Auckland Council Group's interim report for the first six months to the end of December 2022 shows positive signs of recovery from the effects of the COVID-19 pandemic restrictions, but reinforces the need to continue a focus on cost-saving efforts.

Total revenue for the group lifted $444 million to $4.3 billion compared to the prior year with service fees and user charges in particular bouncing back from the lows experienced in the first half of 2021/2022.

Fees and charges for the six months to the end of December 2022 were $744 million, up $134 million from a year earlier. This included water and wastewater revenues up $43 million due to the lifting of lockdown, the end of drought water restrictions and planned price increases. Ports of Auckland Limited also saw revenue increases of $29 million from higher container rates, and an increase in demurrage and storage. The opening-up of events activity increased Tātaki Auckland Unlimited's revenue by $19 million, the opening-up of leisure centres and venues for hire increased Auckland Council's revenue by $13 million and Auckland Transport revenues from user charges increased by $23 million from a rise in patronage and the increased use of roads and parking.

Development and financial contributions also rose, up $28 million to $131 million as economic activity increased after the lockdowns.

While the upturn is encouraging, the group's revenue was supported by the $81 million of Three Waters Better Off Support funding from the central government and $48 million from Waka Kotahi NZ Transport Agency to top up public transport and half-price fare funding to mitigate the impacts of COVID-19. These revenue sources cannot be relied on for the future.

Of course, the reopening of the region from lockdowns also led to higher expenses. Repairs and maintenance increased $42 million against the prior year, when a substantial amount of this work was paused.

The group's total employee benefit costs were $34 million higher at $557 million due in part to a 5 per cent rise in average wages[1], the filling of prior-year vacancies held during COVID-19, increasing salary rates for new employees in the tight labour market as well as the costs of temporary staff brought in to cover frontline services vacancies due to COVID-19 restrictions and illness.

Overall, the group's operating surplus before gains and losses increased by $142 million.

A big plus from the opening of the region after 921 days of COVID-19 restrictions, was being able to accelerate work on the capital projects that are important in delivering the infrastructure and services that Aucklanders need and that keep the region going. Overall, the group delivered $1.2 billion of capital investment during the six months ending 31 December 2022, which is a 33 per cent rise on the same period a year ago. A few of the major projects that were progressed or completed included the Eastern Busway between Panmure and Pakuranga; completion of the Hunua 4 water pipeline which adds resilience to the region's drinking water system; achieving a major milestone on the Central Interceptor wastewater project, with the tunnel boring under the Manukau Harbour complete, enabling the flow of wastewater from the city to the Māngere wastewater treatment plant; and completing a renewal of Mount Smart Stadium's athletics tracks.

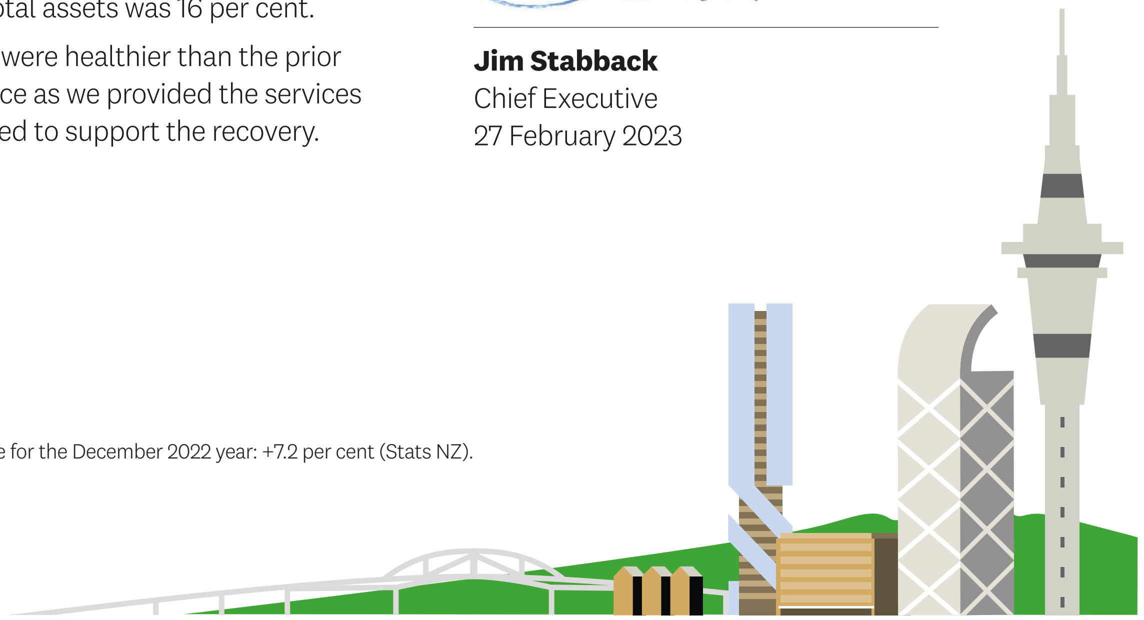
Investment in these projects lifted our debt, however our debt was kept well within prudential limits. Our debt to revenue was 248 per cent at balance date, while our net debt to total assets was 16 per cent.

Revenues of the group were healthier than the prior year's, showing resilience as we provided the services that Aucklanders needed to support the recovery.

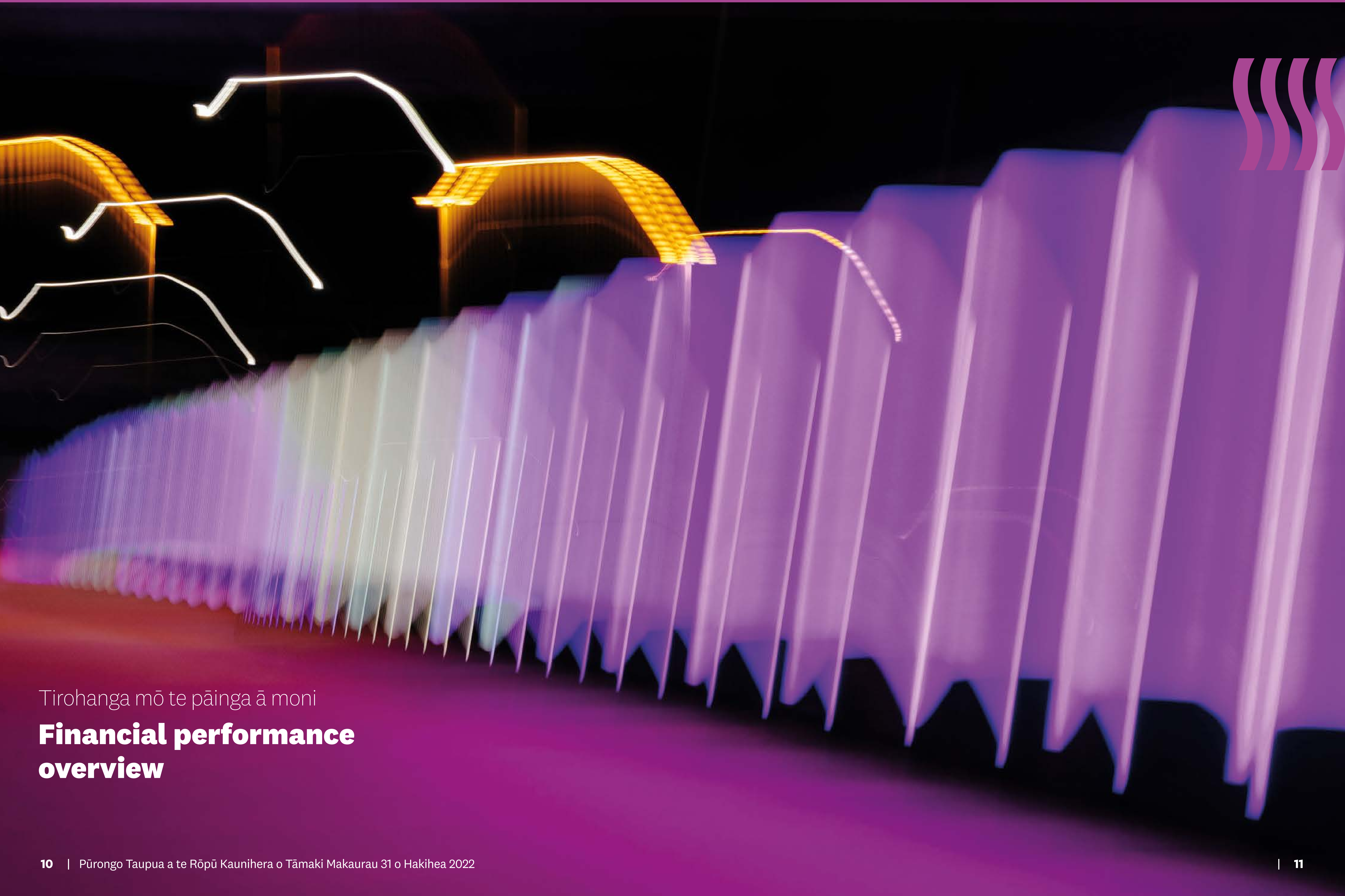
However, there is no doubt that financial pressures are growing. This was evident in higher interest costs related to unhedged debt, the pressure on wage and salary expenses and increases in the cost of goods and services. To manage these pressures the group is focusing on the services that matter most to Aucklanders and providing services in the most effective and efficient way possible. We are delivering cost reductions across the group including using technology to save time and resources, sub-leasing facilities that are not fully utilised, careful negotiation of contracts and renewals, and a reduction in the use of consultants and outsourced service providers.

The devastating and tragic storm and cyclone that hit Tāmaki Makaurau from 27 January 2023 have taken the challenge of the group's financial situation even further. We know many Aucklanders have been severely affected by the weather events, and our immediate priority is to keep Aucklanders safe, after which we will move to the recovery phase. It will take some time to determine the exact impact and costs of the weather events. Investing wisely in Auckland's recovery will help us build resilience and support adaptation. The required investment will be substantial. When our upcoming 10-year budget is refreshed, it will need to increase the region and the organisation's resilience to the effects of climate change, while urgently reducing emissions and meeting the needs of our communities.

Jim Stabback
Chief Executive
27 February 2023



[1] Consumer Price Index change for the December 2022 year: +7.2 per cent (Stats NZ).



Tirohanga mō te pāinga ā moni

Financial performance overview

Auckland Council Group's results show continued recovery after three years of COVID-19 restrictions and the challenges that it brought.

Our people remained committed to building a world class city for Aucklanders, in the face of the many difficulties during this recovery period. Despite labour shortages, ongoing supply chain disruptions and cost escalations, we continued to invest in critical infrastructure and assets that build strong and thriving communities, demonstrating resilience in adapting our ways of working as resurgences of COVID-19 and seasonal illnesses impacted us.

Key financials

Capital investment
$1.2b
(+$300m/+33%)

Operating expenditure
$2.6b
(+$302m/+13%)

Revenue
$4.3b
(+$444m/+12%)

Highlights

- Central Interceptor wastewater tunnel boring across harbour complete
- Mount Smart Stadium athletics tracks renewed
- Five new straddles at the port
- Major upgrades of Papatūānuku and Rereteewhioi Marae completed
- Gross pollutant traps installed in Glen Innes

- Hunua 4 watermain project complete
- Wai Horotiu Queen Street regeneration complete
- Two new sound stages opened at Auckland Film Studios
- Waikato River water consent for additional 150 million litres of water per day
- Eastern Busway main works completed

Pressures

- Rising interest rates
- Skills shortage
- Supply chain disruption
- Climate change
- Inflation
- COVID-19

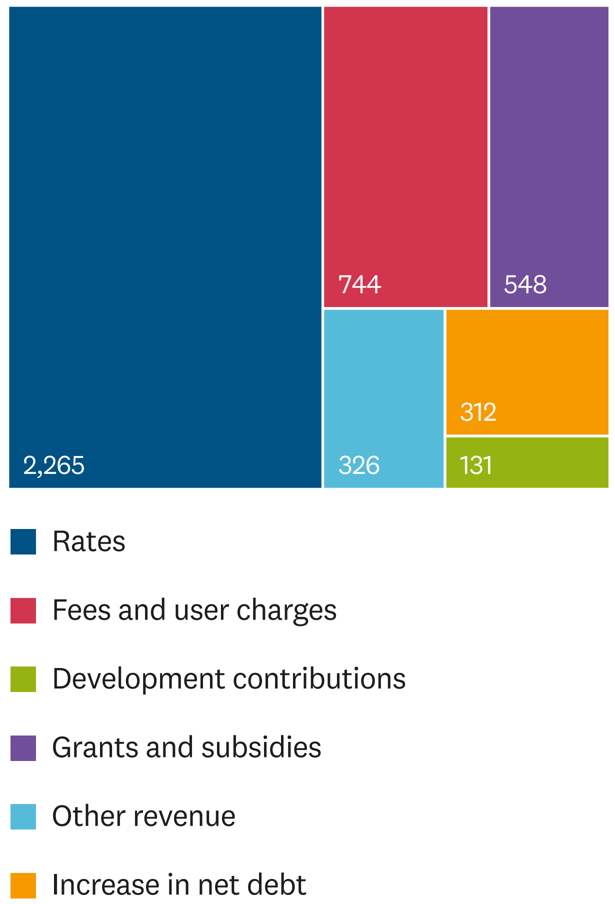
We delivered $1.2 billion of capital investment, a third more than the same period in the prior year. Some of the biggest highlights were:

- Adding resilience to our drinking water network with the completion of **Hunua 4**, a water pipeline that runs from Redoubt Road in Manukau City and finished at Khyber Pass in the central city.
- Progression of our super-sized tunnel, the **Central Interceptor** which will reduce wastewater overflows into central Auckland waterways. Our tunnel boring machine arrived at our pump station in Hillsborough from the southern shores of the Manukau harbour.
- Improving the speed and reliability of public transport in east Auckland with completion of the **Eastern Busway** from Panmure to Pakuranga.
- The upgrade of **Mount Smart Stadium's** athletics tracks which included new drains under the track and the replacement of rubber surfacing of all lawn and turf.

We continued to take a prudent approach to managing our finances, with a debt to revenue ratio of 248%.

We use debt to help finance our capital investment. This helps spread the cost of assets across the generations that will benefit from them. Our net debt increased by $312 million to $11.4 billion. We also use several sources of revenue to fund the group as shown in the diagram to the right.

Sources of funding
($million)



Revenue

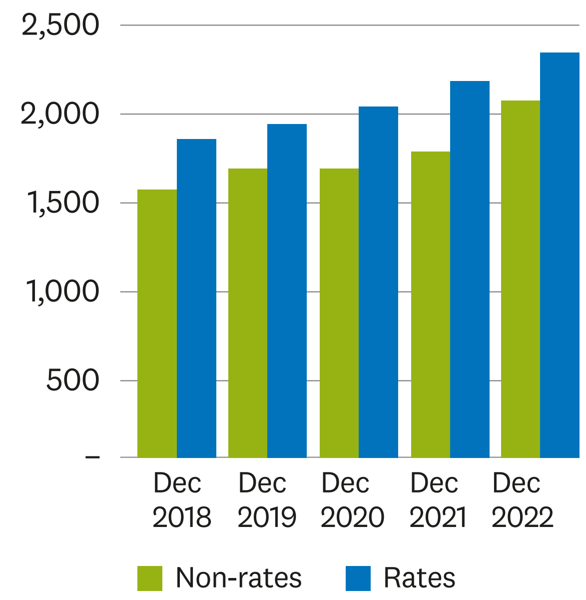
Our revenue for the six months to 31 December 2022 reflects the lifting of COVID-19 restrictions and recovery towards a "new normal". Non-rates revenue from public transport fares, facility usage (e.g. pools and leisure centres), concert and event attendance and port revenue all increased significantly from the prior year, although some revenue streams have not yet returned to their pre-COVID-19 levels.

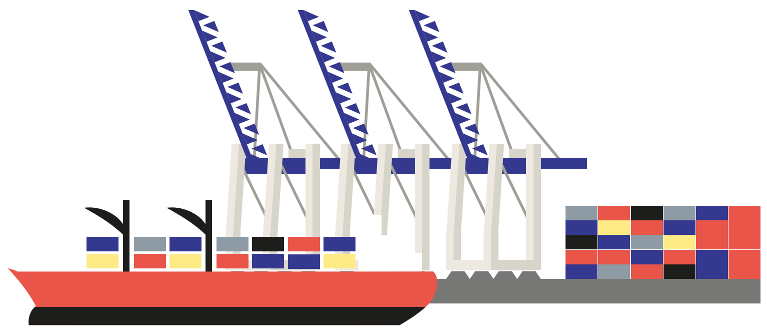
Rates increased by $154 million. This is attributable to a general rates increase, an increase in the rating base and the introduction of the Climate Action Targeted Rate. This targeted rate will significantly enhance public transport and encourage active transport modes as well as help build urban ngahere (forests) and plant trees around Auckland.

All non-rates revenue sources increased compared to the prior year with the exception of vested assets. Some of the notable increases were:

- $81 million received from the central government as part of its Three Waters Better Off Funding
- $48 million received from Waka Kotahi New Zealand Transport Agency to top up public transport revenues and support half-price fares
- $43 million from water and wastewater charges due to the effect of the drought and COVID-19 restrictions in the prior year, as well as price increases
- $29 million from higher rates for containers at the port as well as increases in demurrage and storage activity
- $28 million from development contributions arising from increased economic activity.

Revenue
($million)



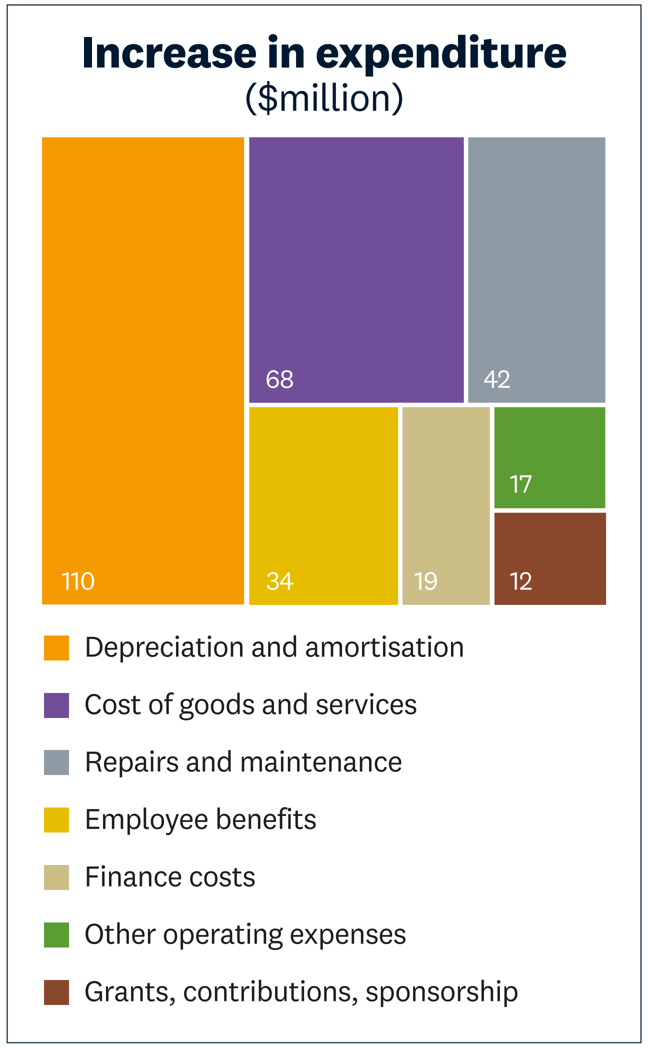


Expenditure

Similar to our revenues, most costs increased compared to the prior year. This is partly due to the increase in activity compared to the prior year when COVID-19 restrictions curtailed a lot of our business-as-usual, but also reflects the impact of cost pressures from supply chain challenges, skills shortages and the cost associated with staff absences from illness.

The largest increases were from:

- depreciation – in addition to depreciation from new assets, most categories of assets had very large valuation increases at the end of the 2021/2022 year which resulted in $110 million more depreciation
- increased public transport costs – they increased by $53 million with higher patronage and more kilometres travelled by rail
- employee benefits – which rose by $34 million due to annual salary increases of approximately 5% and the increase in full-time equivalents to fill prior-year vacancies and undertake funded programmes
- repairs and maintenance – they increased by $42 million as maintenance was limited in the prior period because of COVID-19 restrictions.

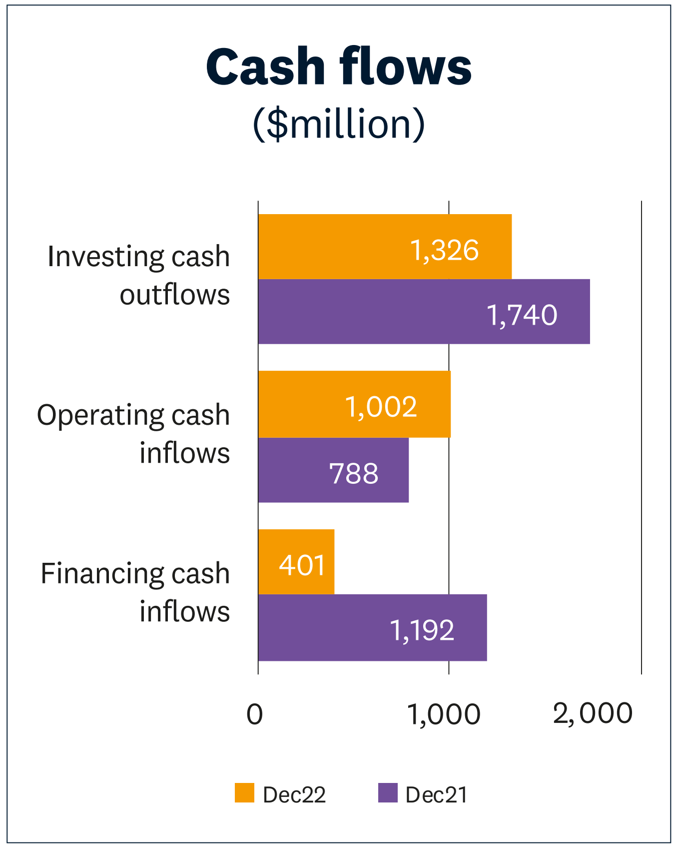


Cash flows

In the prior year, considering the significant amount of debt refinancing coming up in early 2022 and that we were in the midst of the COVID-19 pandemic, we took the prudent approach and refinanced most of the debt early, de-risking the refinancing when financial market conditions were conducive. Much of the surplus cash was invested in term deposits until required. This was not the case in the six months to 31 December 2022, where there was a lower funding requirement. In 2022, capital funding was received from the central government and its agencies, and revenues to fund new assets such as development contributions increased compared to the prior year. The decrease in term deposits (>90 days) compared to the prior year accounted for $801 million of the decrease in investing outflows. This was partly offset by increased capital investment.

Operating cash inflows increased as revenues increased during 2022.

Financing cash inflows decreased as there was a lower requirement for pre-funding in 2022.

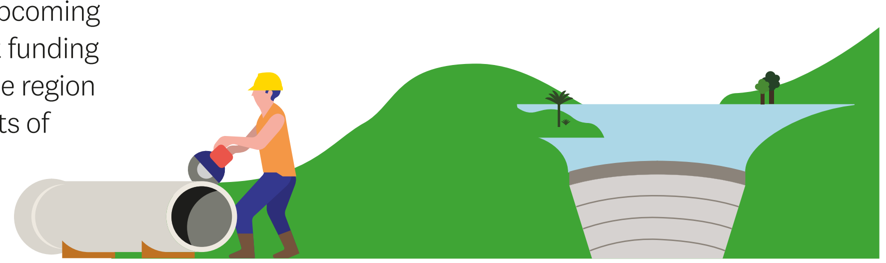


Looking ahead

The past six months has shown a positive start to recovery from the COVID-19 pandemic and the associated economic difficulties. Despite this, inflationary pressures continue making the cost of owning, maintaining, operating and replacing a growing asset base challenging.

Inflation also affects all our operating costs, as do higher interest rates, continuing supply chain challenges and a tight labour market.

In the aftermath of the unprecedented flooding and devastation from the Auckland Anniversary storm event and Cyclone Gabrielle, the group will first and foremost focus on recovery of the region. We will review the lessons learned and ensure our upcoming 10-year budget refresh will take into account funding solutions that support activity to increase the region and the organisation's resilience to the effects of climate change, while meeting the needs of our communities.



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 2022

$Million	Note	6 months to 31 Dec 2022 Unaudited	Restated 6 months to 31 Dec 2021 Unaudited
Revenue			
Rates	A1	2,265	2,111
Fees and user charges		744	610
Grants and subsidies		548	350
Development and financial contributions		131	103
Other revenue		318	289
Vested assets		257	360
Finance revenue measured using effective interest method		7	4
Other finance revenue		1	-
Total revenue excluding other gains		4,271	3,827
Expenditure			
Employee benefits expense		557	523
Depreciation and amortisation		629	519
Grants, contributions and sponsorship		128	116
Other operating expenses		1,046	919
Finance costs		258	239
Total expenditure excluding other losses		2,618	2,316
Operating surplus before other gains and losses		1,653	1,511
Net other gains*	A2	13	558
Share of net deficit in associates and joint ventures	A3	(3)	(90)
Surplus before income tax		1,663	1,979
Income tax expense		35	13
Surplus after income tax		1,628	1,966
Other comprehensive revenue/(expenditure)			
Net gain on revaluation of property, plant and equipment*		2	520
Tax on revaluation of property, plant and equipment		-	(1)
Fair value movement on revaluation of financial assets held at fair value through other comprehensive revenue and expenditure		167	114
Movement in cash flow hedge reserve		1	3
Tax on cash flow hedge reserve		-	(1)
Total other comprehensive revenue		170	635
Total comprehensive revenue		1,798	2,601

*The comparative balance has been restated to reflect a correction of prior year error. Refer to 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 2022

$Million	Note	Unaudited 31 Dec 2022	Audited 30 Jun 2022
Assets			
Current assets			
Cash and cash equivalents		312	229
Receivables and prepayments		1,775	665
Derivative financial instruments	B6	-	1
Other financial assets	B3	86	60
Inventories		42	57
Income tax receivable		1	2
Non-current assets held-for-sale	B2	107	86
Total current assets		2,323	1,100
Non-current assets			
Receivables and prepayments		59	51
Derivative financial instruments	B6	771	527
Other financial assets	B3	2,219	2,049
Property, plant and equipment	B1	64,865	64,273
Intangible assets		473	486
Investment property		651	729
Investment in associates and joint ventures		1,363	1,160
Other non-current assets		11	9
Total non-current assets		70,412	69,284
Total assets		72,735	70,384
Liabilities			
Current liabilities			
Bank overdraft		9	3
Payables and accruals		1,143	1,141
Employee benefits		118	112
Borrowings	B5	854	994
Derivative financial instruments	B6	3	3
Provisions	B4	207	208
Total current liabilities		2,334	2,461
Non-current liabilities			
Payables and accruals		184	185
Employee benefits		7	5
Borrowings	B5	10,896	10,369
Derivative financial instruments	B6	760	637
Provisions	B4	276	282
Deferred tax liabilities		2,206	2,171
Total non-current liabilities		14,329	13,649
Total liabilities		16,663	16,110
Net assets		56,072	54,274
Equity			
Contributed equity		26,693	26,693
Accumulated funds		7,370	5,812
Reserves		22,009	21,769
Total equity		56,072	54,274

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

Te tauākī mō ngā panonitanga o te tūtanga

Statement of changes in equity

For the six months ended 31 December 2022

1 July 2022 to 31 December 2022 Unaudited $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	-	1,628	-	1,628
Other comprehensive revenue	-	-	170	170
Total comprehensive revenue	-	1,628	170	1,798
Transfers (from)/to reserves	-	(70)	70	-
Balance as at 31 December 2022	26,693	7,370	22,009	56,072

Restated 1 July 2021 to 31 December 2021 Unaudited $Million				
Balance as at 1 July 2021*	26,693	4,088	13,867	44,648
Surplus after income tax*	-	1,966	-	1,966
Other comprehensive revenue*	-	-	635	635
Total comprehensive revenue	-	1,966	635	2,601
Transfers (from)/to reserves*	-	(73)	73	-
Balance as at 31 December 2021	26,693	5,981	14,575	47,249

*The comparatives have been restated to reflect a correction of prior year error. Refer to 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 2022

$Million	Note	Unaudited 6 months to 31 Dec 2022	Unaudited 6 months to 31 Dec 2021
Cash flows from operating activities			
Receipts from rates, grants and other services		2,940	2,635
Interest received		7	2
Dividends received		3	2
Payments to suppliers and employees		(1,708)	(1,624)
Income tax refunded/(paid)		1	(2)
Interest paid		(241)	(225)
Net cash inflow from operating activities	C2	1,002	788
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment, investment property and intangible assets		29	52
Acquisition of property, plant and equipment, investment property and intangible assets		(1,119)	(771)
Acquisition of other financial assets		(37)	(809)
Proceeds from sale of other financial assets		16	24
Investment in joint ventures		(213)	(230)
Advances to external parties		(2)	(6)
Net cash outflow from investing activities		(1,326)	(1,740)
Cash flows from financing activities			
Proceeds from borrowings		1,248	2,148
Repayment of borrowings		(851)	(1,002)
Receipts from derivative financial instruments*		394	863
Payment for derivative financial instruments*		(389)	(816)
Repayment of finance lease principal		(1)	(1)
Net cash inflow from financing activities		401	1,192
Net increase in cash and cash equivalents and bank overdraft		77	240
Opening cash and cash equivalents and bank overdraft		226	294
Closing cash and cash equivalents and bank overdraft		303	534

*The comparatives have been restated to better reflect the cash movement of cross currency transactions for derivatives. The restatement resulted in a $809 million increase in proceeds from derivative financial instruments and a corresponding decrease in payments for derivative financial instruments.

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
- Eke Panuku Development Auckland Limited
- Ports of Auckland Limited
- Tātaki Auckland Unlimited Limited
- Tātaki Auckland Unlimited Trust
- 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 2022, have been prepared for the group only, and are to be read in conjunction with the annual report for the year ended 30 June 2022. They are prepared in accordance with New Zealand Generally Accepted Accounting Practice and they comply with PBE IAS 34 *Interim Financial Reporting*. The interim financial statements for the six-month period ended 31 December 2022 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 2022.

Notes to the financial statements

Basis of reporting (continued)

Implementation of amended accounting standards by the group

PBE IPSAS 41 *Financial instruments*

PBE IPSAS 41 Financial Instruments was issued in March 2019. This standard supersedes PBE IFRS 9 *Financial Instruments*, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. The group has adopted PBE IPSAS 41 Financial Instruments for the interim financial statements and the adoption did not result in any significant impact on the group financial statements.

Comparatives

Correction of prior period error

In prior years, management identified land assets that were duplicated in Auckland Council's fixed asset register. Some of these assets date as far back as the amalgamation of Auckland's former territorial authorities and the regional council in 2010. These duplicated assets have been derecognised. Opening balances in the statement of changes in equity as at 1 July 2021, as well as prior year balances were restated to improve year-on-year comparability of the financial statements. Details of the adjustments are outlined in the tables below.

$Million	Reported	Adjustments	Restated
30 June 2021			
Statement of financial position			
Property, plant and equipment	54,941	(57)	54,884
Contributed equity	(26,732)	39	(26,693)
Accumulated funds	(4,194)	106	(4,088)
Reserves	(13,779)	(88)	(13,867)
Statement of comprehensive revenue and expenditure			
Net gain on revaluation of property, plant and equipment	3,148	127	3,275
31 December 2021			
Statement of financial position			
Contributed equity	(26,732)	39	(26,693)
Accumulated funds	(5,940)	(41)	(5,981)
Reserves	(14,577)	2	(14,575)
Statement of comprehensive revenue and expenditure			
Net other gains	538	20	558
Net gain on revaluation of property, plant and equipment	483	37	520

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.

Notes to the Financial Statements

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 notices 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 2022	Restated 6 months to 31 Dec 2021
Net gains on change in fair value of derivative financial instruments	121	578
Net foreign exchange gains recognised in surplus on financial instruments held at amortised cost	15	16
Net (losses)/ gains on change in fair value of investment properties	(59)	9
Other net losses*	(64)	(45)
Total net other gains	13	558

*The comparative balance has been restated to reflect a correction of prior year error. Refer to the Basis of reporting section.

Net gains relate to fair value gains on the group's derivatives because of higher market interest rates in the six months to 31 December 2022.

A3 Share of deficit on joint ventures and associates

City Rail Link Limited (CRLL) is a Crown entity co-funded by the central government and the council. It was created for the purpose of designing and constructing an underground rail line linking Britomart and the city centre with the existing western line near Mount Eden. The council has previously committed to funding 50 per cent of the initially agreed $4.4 billion project. Refer to Note C1 for unquantifiable contingent liability related to CRLL and the potential impact on future funding commitments.

Construction assets will be owned by the sponsors and related entities such as KiwiRail and Auckland Transport, however, the split of assets is yet to be decided.

Notes to the Financial Statements

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 region'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 60
Roads	5 to 100	Marinas	9 to 45
Water and wastewater	10 to 201	Rolling stock	5 to 35
Machinery	3 to 200	Wharves	5 to 100
Stormwater	29 to 110	Works of art	Indefinite
Other infrastructure	3 to 87	Other operational assets	1 to 83
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	7 to 100	Specified and cultural heritage assets	Indefinite

Disposals

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

Notes to the Financial Statements

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 under road), 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'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.

$Million	Unaudited 6 months to 31 Dec 2022	Audited 12 months to 30 Jun 2022
Additions	1,176	2,178
Net disposals and transfers to non-current assets held-for-sale	(40)	(207)
Capital commitments	3,227	2,171
Share of joint ventures' (CRLL) capital commitments	282	461

There have been no material changes in fair value for property, plant and equipment between 30 June 2022 and 31 December 2022.

B2 Assets held for sale

At 30 June 2022, the group recognised various assets held for disposal that related to the group's asset recycling programme whereby assets that are surplus to requirements are sold. Further assets were added to this category during the six months to 31 December 2022 including houses held as part of the Own-your-own home scheme, a shared equity home ownership plan for older people.

Notes to the Financial Statements

B2 Assets held for sale (continued)

Further, part of the group's mandate is to support the development of Auckland's economy. To this end, the group developed the Auckland Film studios, adding two new sound stages in December 2022. Now that development is complete, the film studios are on the market, and the facility is included in non-current assets held for sale at its fair value.

B3 Other financial assets

$Million	Unaudited As at 31 Dec 2022	Audited As at 30 Jun 2022
Short-term deposits	11	13
Other current financial assets	75	47
Total current other financial assets	86	60
Listed shares	2,124	1,957
Other non-current financial assets	95	92
Total non-current other financial assets	2,219	2,049
Total other financial assets	2,305	2,109

Other financial assets are higher largely due to a $168 million increase in the value of investment in Auckland International Airport Limited shares.

B4 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 $1 million to $263 million. This is represented by settlements of $10 million and a net addition of $9 million.

There have been no other material changes in provisions between 30 June 2022 and 31 December 2022.

Notes to the Financial Statements

B5 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 2022	Audited As at 30 Jun 2022
Borrowings	11,750	11,363
Add bank overdraft	9	3
Less cash and cash equivalents	(312)	(229)
Less short-term deposits	(11)	(13)
Total borrowings and bank overdraft less cash and cash equivalents and term deposits	**11,436**	**11,124**

Borrowings and bank overdraft less cash and cash equivalents and term deposits increased by $312 million with a $387 million increase in borrowings since 30 June 2022. This was partly offset by $83 million increase in cash and cash equivalents. The increase in borrowings is largely from two offshore green bond issues raising Swiss Francs 200 million (NZ$358 million).

There were no defaults or breaches of any borrowing arrangement during the period (30 June 2022: nil).

B6 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.

Notes to the Financial Statements

B6 Derivative financial instruments (continued)

Accounting policy (continued)

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.

Fair value ($Million)	Unaudited As at 31 Dec 2022		Audited As at 30 Jun 2022	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps				
Cash flow hedge	2	-	1	-
Fair value through surplus or deficit	632	94	354	200
Forward foreign currency contracts				
Fair value through surplus or deficit	-	8	-	3
Cross-currency interest rate swaps				
Fair value through surplus or deficit	133	660	171	437
Basis swaps				
Fair value through surplus or deficit	4	1	2	-
Total derivative financial instruments	**771**	**763**	**528**	**640**

Notional ($Million)	Unaudited As at 31 Dec 2022		Audited As at 30 Jun 2022	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	10,304	2,089	7,155	5,239
Forward foreign currency contracts	1	212	7	238
Cross-currency interest rate swaps	493	4,987	1,357	3,765
Basis swaps	808	358	808	-
Total derivative financial instruments	**11,606**	**7,646**	**9,327**	**9,242**

Notes to the Financial Statements

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 $13.7 billion at 31 December 2022 (30 June 2022: $12.0 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)

CRLL has received claims from Link Alliance (a consortium which is delivering the main stations and tunnels for the City Rail Link project) for COVID-19 costs and other variations to the contract. The claims are material and include costs and delays relating to COVID-19 working restrictions (including lockdowns), global supply chain constraints, increasing material costs and key resource skills shortages.

In accordance with the claims resolution framework endorsed by Auckland Council and the Crown (the Sponsors), the claims are to be assessed by an independent estimator appointed by the Alliance Participants.

Although the process has progressed, CRLL has not been able to make sufficient progress to determine a reliable estimate or range of estimates. As such CRLL is unable to recognise a provision for these costs. The amount of an agreed settlement is likely to be material and require additional funding from the Sponsors, beyond what the Sponsors have currently committed to provide.

Notes to the Financial Statements

C1 Contingencies (continued)

CRLL is planning to settle the current claims in the 2022/2023 financial year. Any resolution of the claim includes approvals for both the claim resolution and the required funding of the claim by the Sponsors.

There have been no other material changes in contingencies between 30 June 2022 and 31 December 2022.

CONTINGENT ASSETS

Robertson art collection

As disclosed in the 2021/2022 annual report, Julian and Josie Robertson who were significant supporters of the Auckland Art Gallery (the Gallery), signed an agreement in March 2009 to contribute works of art to the Gallery on the event of the survivor's death. The agreement includes works of major artists and art movements in the history of European art, which were last revalued in February 2008 at USD 66 million. Julian Robertson, the surviving donor, passed away in August 2022. The works of art are expected to be received by the gallery following the completion of estate administration. A current value will be determined when the artworks are received.

C2 Note to statement of cash flows

Reconciliation of surplus/ (deficit) after income tax to net cash flow from operating activities

$Million	Unaudited 6 months to 31 Dec 2022	Restated 6 months to 31 Dec 2021
Surplus after income tax	1,628	1,966
Add/(less) non-cash items:		
Depreciation and amortisation	629	519
Vested assets	(257)	(360)
Other non-cash revenue	(8)	(457)
Add/(less) items classified as investing or financing activities	-	-
Add/(less) movements in working capital items	(990)	(880)
Net cash inflow from operating activities	1,002	788

C3 Other disclosures

Self-insurance fund (SIF)

The group maintains insurance for significant assets (except roads and land) as well as business interruption insurance for certain revenue streams.

From 1 July 2022 the group changed the way it insures its risk by implementing a SIF for certain categories of risks. The SIF was established with capital of $20 million, which is invested in unit trusts. The fund pays up to $10 million per policy per event across the group on qualifying claims. Claim amounts over $10 million are referred to external insurers. No claims were made against the fund during the six months to 31 December 2022, however claims are expected following the weather events in Auckland from 27 January 2023. Refer to Note C4 for further information.

Notes to the Financial Statements

C3 Other disclosures (continued)

Three waters reforms
The New Zealand Government is implementing water services reform that is intended to ensure all New Zealanders have safe, clean and affordable water services. This will be achieved by establishing four public entities to take on the delivery of drinking water, wastewater and stormwater services across New Zealand from 1 July 2024. The reform will be enacted by three pieces of legislation:

- The Water Services Entities Act 2022 which contains the water entities' ownership, governance, and accountability arrangements. This act received royal assent on 14 December 2022.
- The Water Services Legislation Bill which provides water services entities with the necessary legislative functions, responsibilities, and powers to be fully operational from their 'go live' date on 1 July 2024. It is currently at select committee stage and was open for public submissions until 12 February 2023.
- Water Services Economic Efficiency and Consumer Protection Bill, which will provide the economic regulation and consumer protection framework for water services. It is also currently at select committee stage and was open for public submissions until 12 February 2023.

The group will be impacted by the transfer of the stormwater network from Auckland Council, and the transfer of the water supply and wastewater networks from Watercare Services Limited.

The Three Waters National Transition Unit within the Department of Internal Affairs issued draft transfer principles and associated guidance in December 2022. These principles may be amended as the last two water services bills are finalised. Due to the timing of the issuance of these principles the full impact of the transfers from the Auckland Council Group has not yet been determined with any certainty, however management has estimated the financial impact where possible. These values are based on 31 December 2022 balances, have not been projected forward to 1 July 2024, and may change materially over the next 18 months. The values of assets have not been adjusted to reflect their transfer value. Once the transfer has been legislated in full and decisions around exactly which assets, liabilities and employees will transfer, more detailed disclosure will be provided.

Estimates as at 31 December 2022

Description	Amount	Assumptions and uncertainty
Infrastructure assets to be transferred	$18.1 billion	These assets are not all necessarily for the primary purpose of providing water services.
Reserves to be transferred	$72 million	Assume that legislation will require the full unspent balance to transfer.

The full impacts will be identified as the group finalises its determination of what parts of the group are defined as primarily providing water services, and the methodology and mechanisms for addressing debt is agreed with the new water services entity.

Notes to the Financial Statements

C4 Events after the reporting period

The devastating weather events that hit Tāmaki Makaurau from 27 January 2023 have caused widespread damage to the region and many of the assets that the group owns or manages. Many Aucklanders were severely affected by the flooding, slips, fallen trees and the accumulation of silt and debris. The group's immediate priority is to keep Aucklanders safe, after which it will move into the recovery phase. Some of the response and recovery costs will be substantial, however it will take some time to determine the exact impact. Costs will include spend on the flood response, emergency relief funds to support communities experiencing hardship, recovery work, demolition and waste removal costs, and costs to repair or renew damaged assets. The group requires both a reassessment and reprioritisation of capital spend to repair the damage and to restore the water and roading networks.

The group will recover many costs from insurance. Certain emergency management costs are reimbursable by central government agencies, and transport related emergency works are anticipated to be co-funded with Waka Kotahi NZ Transport Agency.

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

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 2022

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 2022 (hereafter the interim financial statements).

Conclusion

I have reviewed the interim financial statements of the Auckland Council Group on pages 18 to 33 which comprise the statement of financial position as at 31 December 2022, 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 2022, 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 independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit of the annual financial statements and this review, my staff and appointed auditors and their staff have carried out other engagements that are of an assurance nature and therefore compatible with the independence requirements. These assurance engagements 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, 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:

Uncertainties over the City Rail Link project

Note C1 on page 30 outlines that City Rail Link Limited (CRLL) has been in the process of assessing claims it received from the Link Alliance for additional costs due to Covid-19 costs and other variations to the contract. CRLL has not been able to make sufficient progress to determine a reliable estimate or range of estimates. As a result, the Auckland Council Group is unable to reliably estimate the quantum of any settlement between CRLL and the Link Alliance. However, the amount of an agreed settlement is likely to be significant and require additional funding, beyond what the Auckland Council Group has previously committed to fund.

Uncertainty over the financial impact of three waters reform

Note C3 on page 32 outlines that the Water Services Entities Act 2022 received royal assent on 14 December 2022. The Act establishes four publicly owned water services entities to take over responsibilities for three waters service delivery and infrastructure from local authorities from 1 July 2024, or earlier by Order in Council. In December 2022, the Government introduced two additional water services Bills, one of which will enable the transfer of three waters related assets and liabilities to the water services entities. Until the Bills receive royal assent, the financial impact of the transfer on the Auckland Council Group remains uncertain.

Extent of damage from extreme weather events is yet to be determined

Note C4 on page 33 outlines that extreme weather events, which occurred after 31 December 2022 in the Auckland region, caused significant damage to the Auckland Council Group's assets. The financial impact of the damage is yet to be determined, but the Council expects these costs to be significant. The Auckland Council Group expects to recover many of the costs through insurance and from central government agencies.

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 necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

The Council is also responsible for the publication of the interim financial statements, whether in printed or electronic form.

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, primarily 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
27 February 2023

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 2022) 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

<u>PBE</u>
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.

<u>IFRS</u>
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.

<u>Impact</u>
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.

Main differences between IFRS and PBE Accounting Standards

Business combinations

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.

Main differences between IFRS and PBE Accounting Standards

Borrowing costs (continued)

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
IFRS 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.

Main differences between IFRS and PBE Accounting Standards

Revenue from non-exchange transactions (continued)

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
IFRS 15 *Revenue from Contracts with Customers* 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.

Main differences between IFRS and PBE Accounting Standards

Revenue from exchange transactions (continued)

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 IPSAS 41 *Financial Instruments*).

Main differences between IFRS and PBE Accounting Standards

Fair Value Measurement (continued)

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 IPSAS 41.

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.

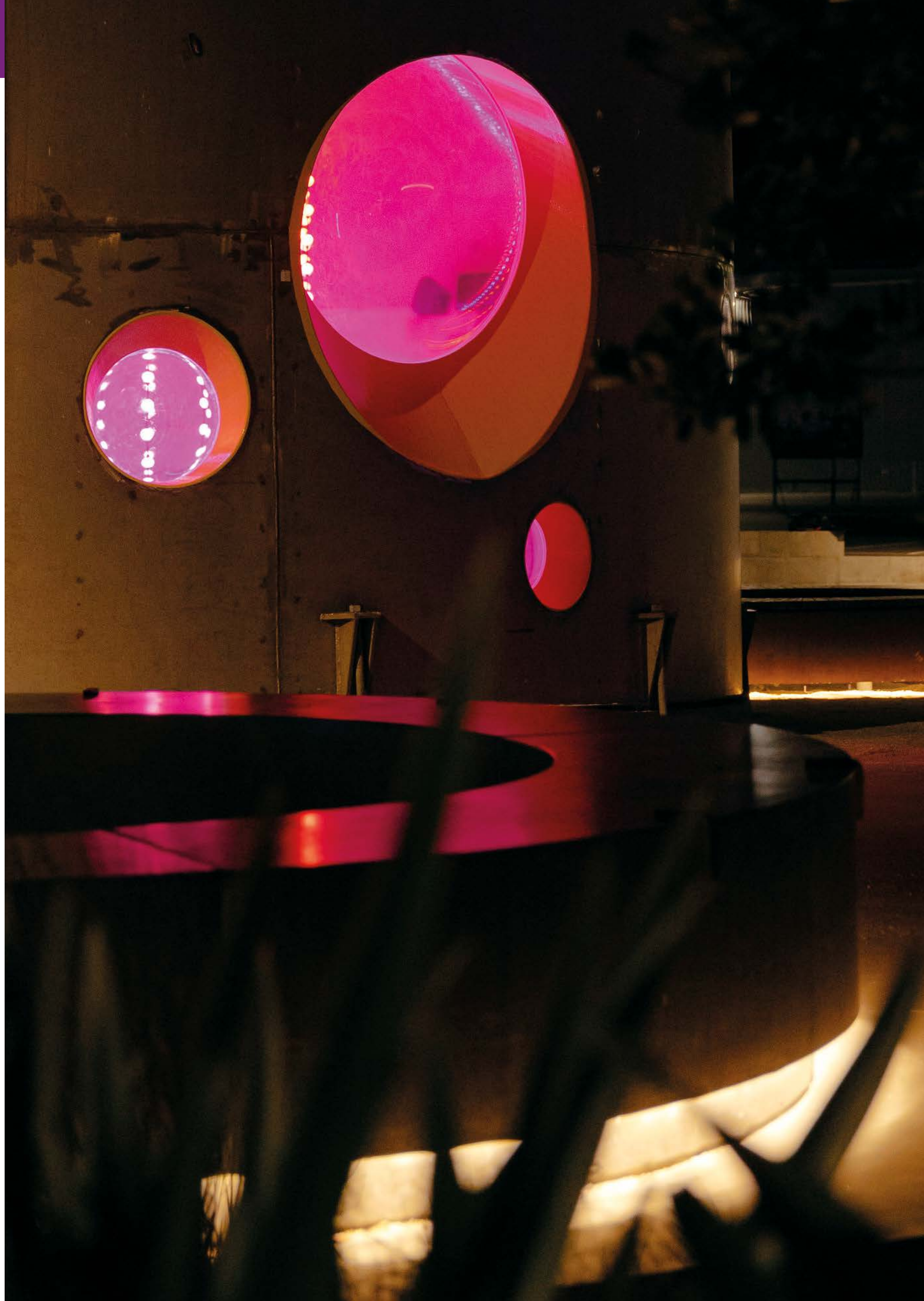
There is no significant difference in respect of the accounting treatment applicable to lessors, or for lessees in contracts classified as finance leases under PBE IPSAS 13.

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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