Pūrongo Taupua a te Rōpū Kaunihera o Tāmaki Makaurau

31 o Hakihea 2023

Auckland Council Group Interim Report

31 December 2023

Auckland Council

Te Kaunihera o Tāmaki Makaurau

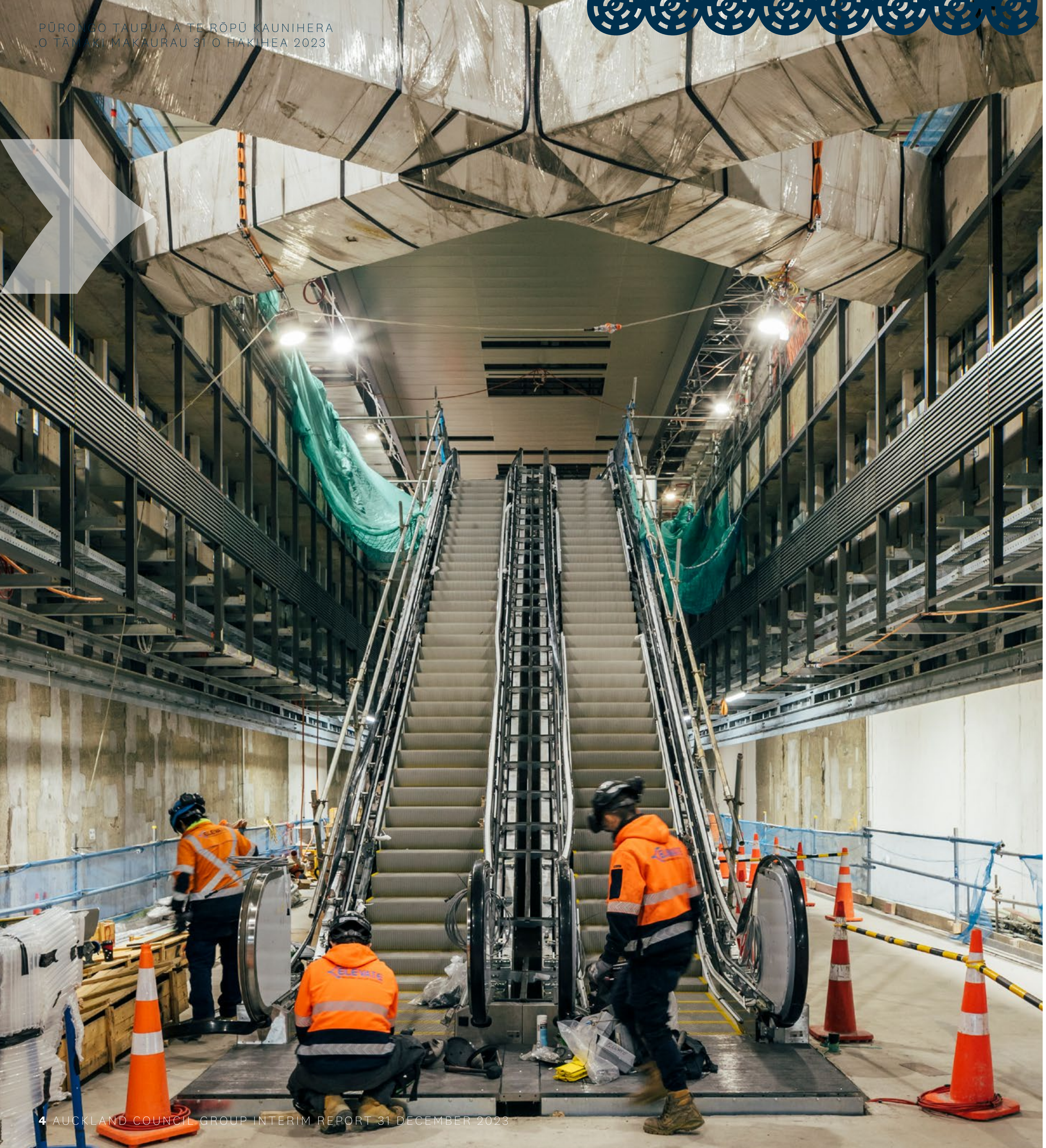
Mihi

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 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.

◀ Cover image: Tāwharanui Beach rock pools. Image courtesy of Medium Rare Content Agency

Te Wharekura, Downtown Ferry Terminal ▲



Te Rārangi Kaupapa
Contents

◀ Te Waihorotiu Station (Aotea), City Rail Link project

He karere nā te koromātua
Message from the mayor

Auckland Council Group is performing well in challenging circumstances. While the spectre of COVID-19 is now hopefully in our rear-view mirror, the ongoing effects of high inflation and interest rates are being felt through increases to our operating expenditure. Our revenues have stabilised and are tracking to budget. I have been pushing the group to be laser-like focused on my commitment to stop wasting money.

I am pleased that is starting to show through in many parts of council and the CCOs, but there is more work to be done. The severe weather events of 2023 have also cast a long shadow over our finances. The allowance for previously unexpected storm and flooding costs in these financial accounts reinforces the need to build our physical and financial resilience as a city and region. This includes having sufficient debt headroom and diversified financial assets to respond to any future risks.

I have proposed in our Long-term Plan 2024-2034 that we establish an Auckland Future Fund or wealth fund for this very reason. It should provide us with better returns and helps us to diversify away from having our most valuable financial investments tied up in assets that are also subject to the same risks that our city has. It just makes sense.

The council group has moved with speed to fix the infrastructure that was damaged by the storms and help those communities that needed us the most. It has not been easy, and we are not there yet, but we are making good progress and moving as fast as we can to give our residents and communities certainty.

The change in government brings fresh new challenges for us. It seems like out with the old and in with the new, but all this means changes to the ways in which we fund infrastructure like transport and water. It is our opportunity to really work with the government to get solutions for Auckland that are driven by Auckland, not Wellington!

Finally, I am grateful that we have had a good summer, and we are making good strides to fixing and finishing the key projects Auckland needs. The next stage is to focus on making council physically and financially resilient so we can begin investing in the right things to ensure Auckland is a beautiful, thriving, and safe place to live.

"...I am grateful that we have had a good summer, and we are making good strides to fixing and finishing the key projects Auckland needs."

Wayne Brown
Mayor of Auckland
28 February 2024

He karere nā te tumu whakarae
Message from the chief executive

Auckland Council Group performance steady, as 2023 weather recovery remains a focus

Our interim results to 31 December 2023 reflect the huge cost of flood recovery to Te Rōpū o Te Kaunihera o Tāmaki Makaurau - Auckland Council Group

Our first six months of this financial year, and my first as chief executive, offers a welcome opportunity to look at where we're going as a group, and a city, and ensuring our priorities are on track.

The impacts of last year's weather events continue and have left a permanent imprint on the group. We now look at each and every project through a different lens – will this investment support our city's resilience? And how can we invest in a smart, efficient way? Where can we add most value?

The ongoing impacts from the severe weather events that affected Auckland are substantial and our interim results show tireless work to bring the region's infrastructure back to full working order.

A year on, we remain acutely aware that those hit hardest are still recovering and, as a group, we have carefully reviewed our lessons learned and I know we are now in a significantly better place to manage such a situation, next time.

How we're preparing for future

In response to the Auckland-wide damage, in October 2023 we negotiated cost-sharing with the government to help fund buy-outs of residential properties that now pose an intolerable risk to life.

I am pleased that the funding will also enable our Making Space for Water programme that comprises several key initiatives, including delivery of critical works, repairing and rebuilding to increase the stormwater network's resilience, and measures to reduce the impact of flooding. It will also help make our transport network more resilient.

The government will fund approximately 50 per cent of these costs, with the remainder by the council. The costs are reflected in our financial results to December 2023, as an unbudgeted $459 million provision for the expected costs to buy-out Risk Category 3 properties.

These costs challenge our budget, but I know they will help deliver a more resilient region. We are committed to working in partnership with the government, iwi, the community and private sector in supporting our collective recovery efforts. *He waka eke noa* – we're all in the same boat.

Well-positioned for six months ahead

Our financial results to 31 December 2023 show an increase in operating revenue of $480 million compared with the same period a year earlier.

We have seen increased rates revenue through a lift in the waste management targeted rate, a growing number of ratepayers, an annual rates rise and a $102 million increase from developers for assets, such as parks and roading.

However, the significant growth Auckland is facing continues to challenge our revenue and I am very clear that looking ahead, we as a group need to do some things differently – save money, make better use of technology, and retain good staff so Aucklanders get the service they deserve.

Cost-wise, in addition to the $459 million provision for Risk Category 3 property buy-outs, inflation and higher interest rates have also resulted in our cost base going up across the board. But, in spite of this, I am pleased the group ends the six months with an operating surplus before other gains and losses of $1.5 billion. This puts us in a good position to continue our planned work programmes, provide day-to-day community services and deliver our critical capital projects.

During the six months we spent well over $1.4 billion building and buying assets, with most costs being roading and transport assets ($599 million), as well as water supply and wastewater assets ($551 million).

Two major milestones were delivered in this space – the Muriwai water treatment plant returned to service post-cyclone, and nearly two hectares of land was purchased in Manurewa to extend the Auckland Botanic Gardens, as a treasured asset that offers educational, ecological and cultural experiences for visitors and future generations.

We use debt to spread the cost of assets over the generations who will benefit. During the last six months our net debt decreased by $429 million to $11.9 billion, mainly as a result of the Auckland International Airport Limited shareholding sale.

As a council group, we remain committed to advancing the social, cultural, environmental, and economic wellbeing of Aucklanders. I would like to acknowledge the significant contributions that all our staff have made in achieving our strong result in the year to date.

He aha te mea nui o te ao? He tangata! He tangata! He tangata!

What is the most important thing in the world? It is people! It is people! It is people!

"The ongoing impacts from the severe weather events that affected Auckland are substantial and our interim results show tireless work to bring the region's infrastructure back to full working order."

Phil Wilson
Phil Wilson
Chief Executive
28 February 2024

▶ Te Henga / Bethells Beach surf life saving tower

Tirohanga mō te pāinga ā moni

Financial performance overview

◀ Myers Park view

Capital investment
$1.4b
December 2022
$1.2 billion

Net debt
$11.9b
December 2022
$11.4 billion

Total assets
$75b
December 2022
$73 billion

Credit ratings
Moodys Aa2
S&P Global AA

Total operating revenue
$4.8b
December 2022
$4.3 billion

Operating surplus
$1.5b
December 2022
$1.7 billion

JULY 2023

New boardwalk opened on the summit of Maungawhau/Mt Eden

Matariki festival celebrated at various city locations

AUGUST 2023

Gulf Harbour Hammerhead Reserve and Matakatia seawalls renewed

Takapuna Waiwhárariki Anzac Square officially opened

FIFA Womens World Cup Final

SEPTEMBER 2023

Tāmaki Drive northern footpath complete

Central Interceptor's tunnel boring machine broke through May Street

OCTOBER 2023

Cost-sharing agreement signed with central government

Helensville A&P Showgrounds facility upgrade completed

Muriwai water treatment plant returned to service

NOVEMBER 2023

Howick Loop watermain upgrade completed

Heat pumps replace gas boilers at Auckland Art Gallery

DECEMBER 2023

Myers Park underpass officially opened

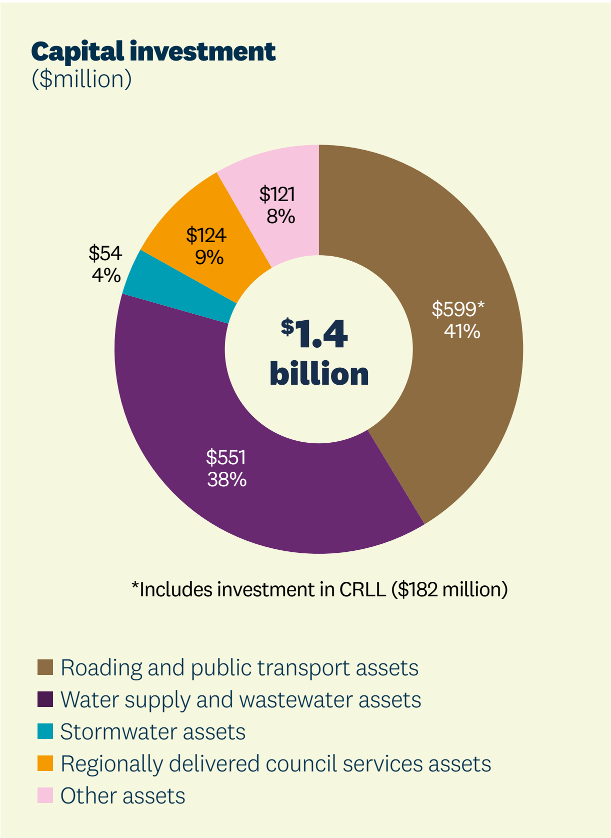
Manurewa Acquatic Centre solar panels installed

Tirohanga mō te pāinga ā moni
Financial performance overview

The first half of 2023/2024 has been a continued focus on recovery from the 2023 weather events that hit the Auckland region, causing extensive damage and disruption.

Capital investment

Our priority during the six months to 31 December 2023 has been to support the region's recovery, and to strengthen its long-term resilience. Also of importance, was continuing to renew and build infrastructure to support the growth in our region. We invested well over $1.4 billion, a $232 million increase compared to the six months ended 31 December 2022.



*Includes investment in CRLL ($182 million)

Some of the key highlights were:

Roading and public transport

- Footpath construction as part of the Rodney Targeted Rate Programme was completed in Riverhead, Warkworth and Wellsford.
- Construction of Stage 1 of the Papatoetoe West residential speed management programme was completed.
- Te Waihorotiu Station was prepared to facilitate essential equipment testing and future train commissioning.

Water supply and wastewater

- The Muriwai water treatment plant returned to services after being damaged during Cyclone Gabrielle.
- For the Central Interceptor project, the main tunnel boring machine broke through at May Road in early September.

Stormwater

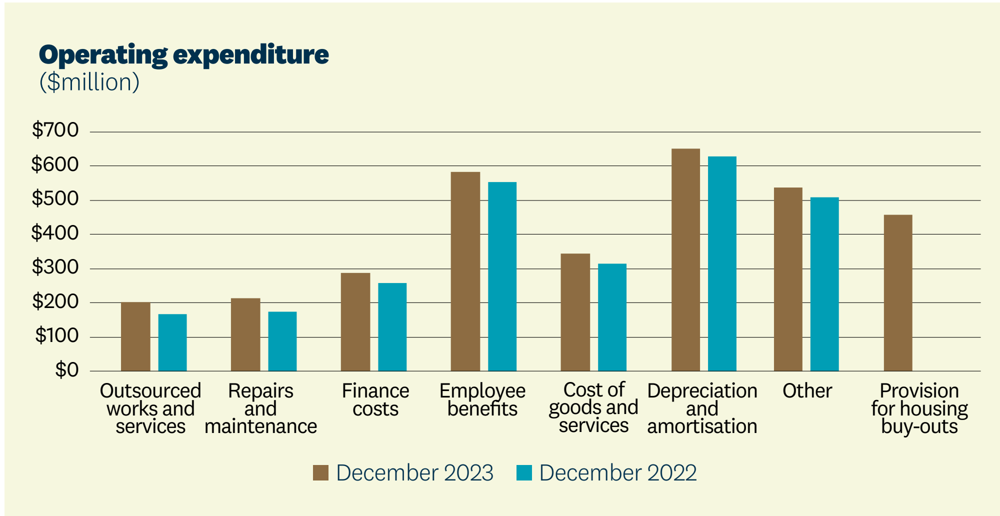
- Clinker Place New Lynn project reached practical completion in September 2023. The project installed a new stormwater pipe in New Lynn and improved the stormwater network in the area.
- Kitchener Road box culvert emergency renewal installed a new stormwater infrastructure to resolve flooding issues at the Kitchener-Shakespeare Road intersection. The network upgrade reached practical completion in September 2023 and provides additional stormwater capacity, future-proofing it for new development.

Other

- Auckland Art Gallery's gas boilers were replaced by heat pumps reducing power costs by nearly $600 per day.
- Wai Horotiu Queen Street project, from Customs Street to Shortland Street was delivered on time and under budget.
- Helensville A&P Showgrounds facility renewal was completed ahead of plan.

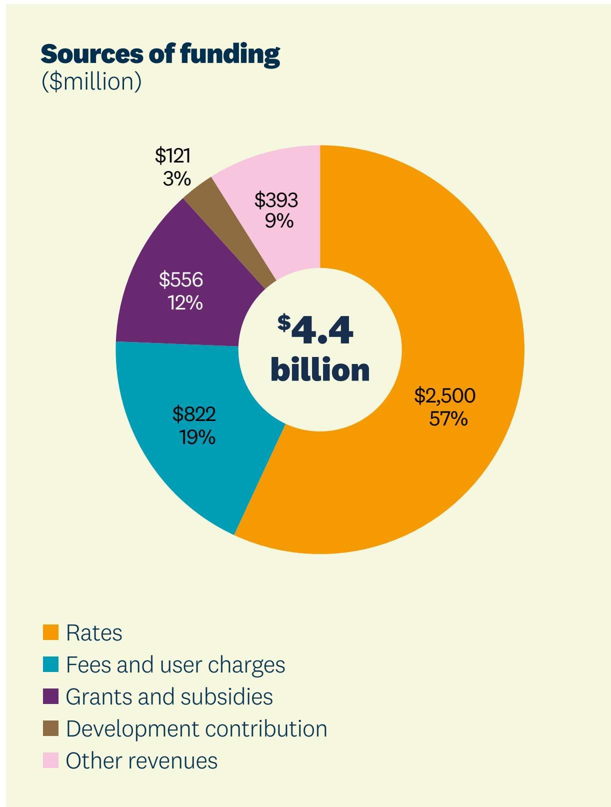
Operating expenditure

We incur operating expenditure as we deliver services to Aucklanders, maintain and operate our assets and administer our programmes and activities. Inflation, increasing interest rates and the increasing cost of labour contributed to a $667 million increase in operating expenditure to $3,285 million. This increase also included a $459 million provision for the buy-back of Risk Category 3 properties that were damaged during the 2023 weather events and pose an intolerable risk to life. Approximately 50 per cent of these costs will be recovered from the central government and will be recognised as the conditions for the funding are met. Expenditure increases compared to the six months ended 31 December 2022 were:



Funding

We fund our capital programmes and services using a mixture of revenue and debt funding. During the six months to 31 December 2023, $404 million of new borrowings were used to fund capital projects, and proceeds from the partial sale of our Auckland International Airport Limited shares ($833 million) were used to reduce net debt by $429 million. The sources of funding during the six months were:



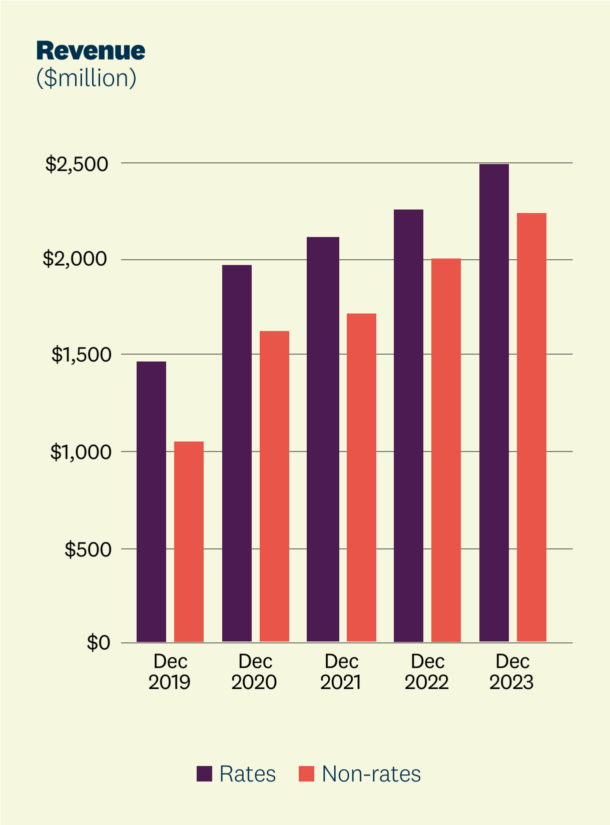
The majority of our revenue comes from rates. Rates were $235 million higher than prior period at $2,500 million mainly due to an increase in general rates, a growing ratepayer base and an increase in waste management targeted rates to recover the increased cost of delivering our waste management services.

Further, there is a $102 million increase in receipt of parks and roading assets from developers.

Other revenue sources increased with the exception of development contributions which was $10 million lower than prior period.

Fees and user charges increased by $78 million to $822 million, with increases in public transport patronage as well as parking and infringement fees as Aucklanders started moving out and about in greater numbers as the caution associated with COVID-19 continued to dissipate. Similarly, water and wastewater charges bounced back with an increase in revenue of $25 million due to price and usage increases.

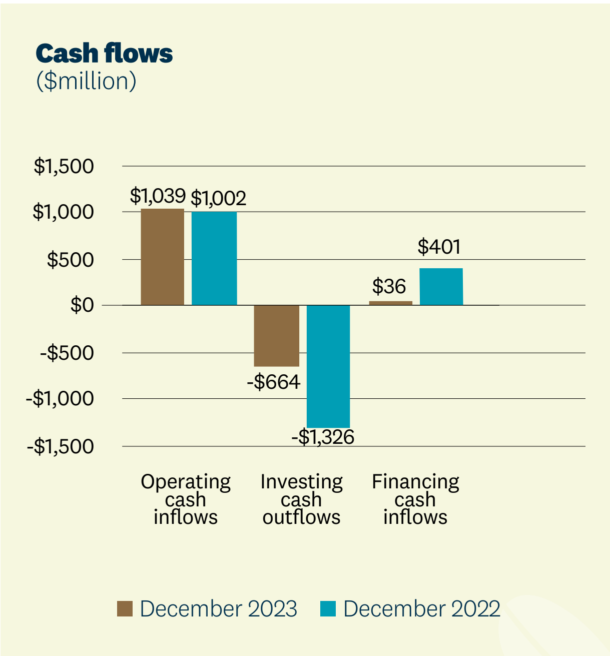
Grants and subsidies increased by a net $8 million made up of $84 million higher subsidies from Waka Kotahi NZ Transport Agency from transport projects, partly offset by the absence of central government funding that was received in the prior year such as Better Off funding, COVID-related Project Activate and Reactivate funding and capital subsidies for the Auckland Film Studios.



Cash flows

We sold the equivalent of 7 per cent of Auckland International Airport Limited's total shares in August 2023. The proceeds of $833 million were used to pay down our debt resulting in a net $36 million positive cash flow of funds from financing purposes and the sale also reduced our overall investing cash outflows compared to the prior year six months to 31 December 2022 by $662 million. This was partly offset by $166 million increase in cash spent to acquire assets compared to comparative period.

Operating cash flows increased by a moderate $37 million, which reflects the large increase in revenues over the six months, partly offset against operating expenditure increases mainly due to inflation and the increasing costs of labour.



Looking ahead

Much has changed for the group in the last six months, with many Aucklanders still suffering from the effects of the 2023 weather events, and the increasing costs from inflation and higher interest rates. Although we cannot take our focus off supporting Auckland's growth, we also need to pay close attention to building the resilience of our region and helping Aucklanders with the greatest need. We remain committed to helping affected residents return to normality, upgrading and building new infrastructure, and providing the community services and amenities that Aucklanders deserve.

Te Wharekura, Downtown Ferry Terminal ▶

Ngā tauāki ā-pūtea
Financial statements

◀ Weymouth Wharf

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 2023

$Million	Note	Unaudited 6 months to 31 Dec 2023	Unaudited 6 months to 31 Dec 2022
Revenue			
Rates	A1	2,500	2,265
Fees and user charges		822	744
Grants and subsidies		556	548
Development and financial contributions		121	131
Other revenue		374	318
Vested assets		359	257
Finance revenue measured using effective interest method		17	7
Other finance revenue		2	1
Total revenue excluding other gains		**4,751**	**4,271**
Expenditure			
Employee benefits expense		585	557
Depreciation and amortisation		653	629
Grants, contributions and sponsorship		138	128
Other operating expenses	A2	1,619	1,046
Finance costs		291	258
Total expenditure excluding other losses		**3,286**	**2,618**
Operating surplus before other gains and losses		**1,465**	**1,653**
Net other (losses) and gains	A3	(75)	13
Share of net deficit of associates and joint ventures	A4	(7)	(3)
Surplus before income tax		**1,383**	**1,663**
Income tax expense		23	35
Surplus after income tax		**1,360**	**1,628**
Other comprehensive (expenditure)/revenue			
Net gain on revaluation of property, plant and equipment		1	2
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		(48)	167
Movement in cash flow hedge reserve		-	1
Total other comprehensive (expenditure)/revenue		**(46)**	**170**
Total comprehensive revenue		**1,314**	**1,798**

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 2023

$Million	Note	Unaudited 31 Dec 2023	Audited 30 Jun 2023
Assets			
Current assets			
Cash and cash equivalents		491	84
Receivables and prepayments	A1	1,958	720
Derivative financial instruments	B6	125	110
Other financial assets	B3	139	110
Inventories		42	39
Non-current assets held-for-sale	B2	117	989
Total current assets		**2,872**	**2,052**
Non-current assets			
Receivables and prepayments		54	54
Derivative financial instruments	B6	484	626
Other financial assets	B3	1,558	1,524
Property, plant and equipment	B1	67,005	66,076
Intangible assets		506	467
Investment property		645	655
Investment in associates and joint ventures		1,661	1,490
Other non-current assets		10	9
Total non-current assets		**71,923**	**70,901**
Total assets		**74,795**	**72,953**
Liabilities			
Current liabilities			
Bank overdraft		-	4
Payables and accruals		1,155	1,096
Employee benefits		122	121
Borrowings	B5	2,243	2,403
Derivative financial instruments	B6	8	2
Provisions	B4	287	196
Total current liabilities		**3,815**	**3,822**
Non-current liabilities			
Payables and accruals		194	192
Employee benefits		5	5
Borrowings	B5	10,192	10,054
Derivative financial instruments	B6	564	568
Provisions	B4	648	270
Deferred tax liabilities		2,512	2,491
Total non-current liabilities		**14,115**	**13,580**
Total liabilities		**17,930**	**17,402**
Net assets		**56,865**	**55,551**
Equity			
Contributed equity		26,693	26,693
Accumulated funds		8,265	6,803
Reserves		21,907	22,055
Total equity		**56,865**	**55,551**

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 2023

1 July 2023 to 31 December 2023 Unaudited $Million	Contributed equity	Accumulated funds	Reserves	Total equity
Balance as at 1 July 2023	**26,693**	**6,803**	**22,055**	**55,551**
Surplus after income tax	-	1,360	-	1,360
Other comprehensive expenditure	-	-	(46)	(46)
Total comprehensive revenue	-	1,360	(46)	1,314
Transfers to/(from) reserves	-	102	(102)	-
Balance as at 31 December 2023	**26,693**	**8,265**	**21,907**	**56,865**

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**

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 2023

$Million	Note	Unaudited 6 months to 31 Dec 2023	Unaudited 6 months to 31 Dec 2022
Cash flows from operating activities			
Receipts from rates, grants and other services		3,250	2,940
Interest received		16	7
Dividends received		10	3
Payments to suppliers and employees		(1,993)	(1,708)
Income tax refunded		-	1
Interest paid		(244)	(241)
Net cash inflow from operating activities	**C2**	**1,039**	**1,002**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment, investment property and intangible assets		4	29
Acquisition of property, plant and equipment, investment property and intangible assets		(1,285)	(1,119)
Acquisition of other financial assets		(59)	(37)
Proceeds from sale of other financial assets		859	16
Investment in joint ventures		(180)	(213)
Advances to external parties		(3)	(2)
Net cash outflow from investing activities		**(664)**	**(1,326)**
Cash flows from financing activities			
Proceeds from borrowings		2,411	1,248
Repayment of borrowings		(2,412)	(851)
Receipts from derivative financial instruments		258	394
Payment for derivative financial instruments		(220)	(389)
Repayment of finance lease principal		(1)	(1)
Net cash inflow from financing activities		**36**	**401**
Net increase in cash and cash equivalents and bank overdraft		**411**	**77**
Opening cash and cash equivalents and bank overdraft		80	226
Closing cash and cash equivalents and bank overdraft		**491**	**303**

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

◀ Ōrewa Holiday Park Accommodation

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
- Port 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 for the six months ended 31 December 2023 have been prepared for the group only and are to be read in conjunction with the annual report for the year ended 30 June 2023. 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 2023 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 for the year ended 30 June 2023.

Implementation of amended accounting standards by the group

2022 Omnibus Amendments to PBE Standards, issued June 2022

The 2022 Omnibus Amendments include several general updates and amendments to several Tier 1 and Tier 2 PBE accounting standards. The revised PBE standards are effective from the year ending 30 June 2024. The group has adopted the revised PBE standards, and the adoption did not result in a significant impact on the group financial statements.

Basis of reporting (continued)

Standard issued but not yet effective

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

PBE IFRS 17 *Insurance Contracts*

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

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

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

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 comparative information.

▲ Elliot Street light installation

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 and rates receivable are recognised in full at the date of issuance of ratings notices and is measured at the present value of cash received or receivable in the beginning of the financial year. Compared with 30 June 2023, the rates receivable increased by $1.4 billion on 31 December 2023 mainly due to the timing of rates recognition.

Sources of revenue are consistent with prior periods.

A2 Other operating expenses

$Million	Unaudited 6 months to 31 Dec 2023	Unaudited 6 months to 31 Dec 2022
Other operating expenses	1,619	1,046

Other operating expenses were $573 million higher than prior year at $1,619 million mainly due to a $459 million provision recognised for the buy-out of Risk Category 3 properties (refer to Note B4), and higher repair and maintenance and outsourced works and services in response to the storm events.

A3 Net other gains and losses

$Million	Unaudited 6 months to 31 Dec 2023	Unaudited 6 months to 31 Dec 2022
Net (losses)/gains on change in fair value of derivative financial instruments	(129)	121
Net foreign exchange gains recognised in surplus on financial instruments held at amortised cost	50	15
Net losses on change in fair value of investment properties	-	(59)
Other net gains/(losses)	4	(64)
Total net other gains and losses	**(75)**	**13**

Net losses of $129 million relate to fair value losses on the group's derivatives as a result of lower market interest rates. This was partly offset by unrealised gains of $50 million from foreign exchange movements relating to financial instruments held at amortised cost. Other net gains of $4 million were mainly due to $30 million of gains on revaluation of other assets largely offset by $24 million losses on property, plant and equipment disposals and a $2 million impairment on property, plant and equipment.

A4 Share of net deficit of 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 is committed to funding 50 per cent of the $5.5 billion project.

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.

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	5 to 200	Rolling stock	14 to 35
Machinery	5 to 200	Wharves	5 to 100
Stormwater	12 to 150	Works of art	13 to Indefinite
Other infrastructure	10 to 69	Other operational assets	1 to 50
Operational		**Restricted**	
Land	Indefinite	Parks and reserves	Indefinite
Buildings	10 to 100	Buildings	5 to 100
Specialised sporting and cultural venues	3 to 100	Improvements	3 to 87
Train stations	7 to 100	Specified and cultural heritage assets	Indefinite

Disposals

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

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 for the amount by which the carrying amount of property, plant and equipment exceeds its recoverable amount. Any impairment loss is recognised immediately in surplus or deficit unless the asset is revalued, in which case any impairment loss is treated as a revaluation decrease. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Assets are considered cash generating if their primary objective is to provide a commercial return. The value in use for cash-generating assets is the present value of expected future cash flows. For non-cash generating assets, value in use is determined using an approach based on a depreciated replacement cost.

Revaluation

Infrastructure assets (except land 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 2023	Audited 12 months to 30 Jun 2023
Additions	1,569	2,876
Net disposals	(27)	(92)
Capital commitments	3,244	2,856
Share of joint ventures' (CRLL) capital commitments	409	333

There have been no material changes in fair value for property, plant and equipment between 30 June 2023 and 31 December 2023.

B2 Assets held for sale

At 30 June 2023, 7 per cent of Auckland International Airport Limited's shares were recorded in non-current assets held for sale at $880 million. On 31 August 2023 the council sold these shares at an average share price of $8.11 per share. The proceeds of $833 million were used to reduce the council's debt as it matured.

B3 Other financial assets

$Million	Unaudited As at 31 Dec 2023	Audited As at 30 Jun 2023
Short-term deposits	22	26
Other current financial assets	117	84
Total current other financial assets	**139**	**110**
Listed shares	1,459	1,434
Other non-current financial assets	99	90
Total non-current other financial assets	**1,558**	**1,524**
Total other financial assets	**1,697**	**1,634**

B3 Other financial assets (continued)

Auckland Council now owns 163 million shares (11.06 per cent) valued at $1.4 billion in Auckland International Airport Limited based on the share price as at 31 December 2023.

Other financial assets are higher mainly due to $32 million increase in the Self-Insurance Fund resulting from additional allocated funds and investment gains and a $29 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.

Provision for Risk Category 3 property buy-outs

Auckland Council and the central government entered into a cost-sharing agreement in October 2023, which will see the central government contribute up to $877 million towards Auckland's recovery following the 2023 Auckland Anniversary Day floods and Cyclone Gabrielle in the form of a funding agreement.

Under the cost-sharing agreement each party will contribute up to $877 million towards Auckland's recovery as follows:

- Financial contribution for the Risk Category 3 voluntary buy-outs ($387 million)
- Funding under the National Resilience Plan – Risk Category 2 mitigation projects ($380 million)
- Funding under the National Resilience Plan – Regional transport projects (circa $110 million)

The council will administer the programme for the purchase of the properties and will take ownership of them. The central government funding will be provided when the council raises a payment request.

The group recognised a $459 million provision for the buy-out of Risk Category 3 properties as at 31 December 2023. No provision was recognised for Risk Category 2 mitigation projects due to lack of information regarding potential claims, which meant we were unable to determine a reliable estimate of council's liability. Refer to Note C1 for disclosure of contingencies in relation to Risk Category 2 mitigation projects.

Significant judgements and estimates used in calculating provision for Risk Category 3 property buy-outs

The council applied several judgements and estimates in determining the provision for Risk Category 3 property buy-outs. Uncertainty around amount and timing due to these assumptions may result in actual outcomes that are significantly different from the estimate in the future. The buy-out costs to council may vary significantly depending on the specific property and insurance details. There is currently limited data available with only few properties that have been formally assessed as Category 3.

Significant judgements and assumptions include:

- **The number of eligible properties that meet the Risk Category 3 criteria**
  The number of eligible properties are based on work carried out using flood modelling and the number and location of properties that received coloured placards during the initial rapid building assessments process.
- **The number of eligible Risk Category 3 properties that will opt into the scheme**
  This has been estimated based on the number of properties that opted into the voluntary assessment process after the severe weather events, noting that the percentage is expected to be high due to the intolerable risk to life and the difficulties in finding insurance for such a risky property. This assumption may change when the council collects more information in subsequent reporting periods and may have a significant impact on the amount of the provision. An increase or a decrease by 100 properties could increase or reduce the provision by $78 million.

B4 Provisions (continued)

- **Expected market value of properties**
  This is based on the average value of properties in affected areas, sourced from the latest reliable public information, adjusted for uncertainty and fluctuations in the housing market since the severe weather events. An increase or a decrease in the property market value by $100,000 could increase or reduce the provision by $49 million.
- **Proportion of properties that are insured**
  The proportion is assumed to be in line with the statistics prepared by the Insurance Council of New Zealand.
- **Expected insurance recoveries per property (from private insurers and EQC)**
  This is estimated to be the weighted average insurance payout based on insurance payments per property in respect of the level of damage and the expected number of eligible Category 3 properties.
- **Estimated value of land post-acquisition**
  This is based on the average market value of existing restricted reserve vacant land in the affected area from Auckland Council's 2022/2023 valuations, validated against publicly available information of market values.
- **Demolition costs per property**
  We have assumed that all buildings on eligible properties will be demolished, with the demolition costs being based on quotes from demolition firms.
- **Settlement pattern**
  Settlements are assumed to take place over a five-year period, and therefore the provision has been adjusted for time value of money by discounting at the monthly risk-free rate provided by the New Zealand Treasury.

Provision for weathertightness and associated building defects

The provision for weathertightness and associated defect claims increased by $44 million from 30 June 2023 to $301 million. This is represented by settlements of $4 million and a net addition of $48 million attributable to new active claims.

There have been no other material changes in provisions between 30 June 2023 and 31 December 2023.

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 2023	Audited As at 30 Jun 2023
Borrowings	12,435	12,457
Add bank overdraft	-	4
Less cash and cash equivalents	(491)	(84)
Less short-term deposits	(22)	(26)
Total borrowings and bank overdraft less cash and cash equivalents and term deposits	**11,922**	**12,351**

B5 Borrowings (continued)

Borrowings and bank overdraft less cash and cash equivalents and term deposit decreased by $429 million from the end of June 2023 with a $403 million increase in cash and cash equivalents, and short-term deposits. The proceeds from the sale of Auckland International Airport Limited shares $833 million were used to reduce the council's debt as it matured, partly offset by new capital investment. The $22 million decrease in borrowings was driven by favourable market movements in foreign exchange rates resulting in unrealised foreign exchange gains of $52 million on offshore debt partly offset by a $15 million increase in new borrowings and other book adjustments.

There were no defaults or breaches of any borrowing arrangement during the period (30 June 2023: 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.

Derivative financial instruments 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.

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 2023		Restated As at 30 Jun 2023	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps				
Fair value through surplus or deficit	309	168	495	110
Forward foreign currency contracts*				
Fair value through surplus or deficit	-	6	1	-
Foreign currency swaps*				
Fair value through surplus or deficit	-	5	3	-
Cross-currency interest rate swaps				
Fair value through surplus or deficit	298	393	230	460
Basis swaps				
Fair value through surplus or deficit	2	-	7	-
Total derivative financial instruments	**609**	**572**	**736**	**570**

Notional ($Million)	Unaudited As at 31 Dec 2023		Restated As at 30 Jun 2023	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	7,250	5,744	8,964	3,179
Forward foreign currency contracts*	1	211	133	77
Foreign currency swaps*	-	132	181	-
Cross-currency interest rate swaps	2,655	3,040	2,439	3,040
Basis swaps	358	-	1,165	-
Total derivative financial instruments	**10,264**	**9,127**	**12,882**	**6,296**

*The comparative balance for forward foreign currency contracts have been restated to exclude foreign currency swaps which are disclosed on a separate line to provide better information.

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 $17.3 billion at 31 December 2023 (30 June 2023: $14.2 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

Risk Category 2 mitigation projects

Following the 2023 Auckland Anniversary storm and Cyclone Gabrielle, the New Zealand government's risk categorisation framework has been used to categorise homes affected by the weather events and residential properties that may be considered high risk in future events.

The council committed to provide grants to Category 2P property owners where there is an intolerable risk to life from extreme weather events and property level mitigations can reduce the risk to a tolerable level.

The council will fund infrastructure improvements for Category 2C properties that need community level measures to manage future severe weather event risk such as repairing and enhancing flood protection schemes. These measures are expected to be administered by council.

Category 2A properties require further assessment to identify if they fall within Category 2C or 2P.

The council is not yet in a position to identify all properties that fall into each of categories above, how many properties will opt in after categorisation is complete and what risk mitigation measures are necessary. Due to these uncertainties, council is not able to reliably estimate its liability as at 31 December 2023. The amount of this liability could be significant.

Refer to Note B4 for further information on the cost sharing agreement with central government.

C1 Contingencies (continued)

CONTINGENT ASSETS

The central government funding for Risk Category 3 property buy-outs

The council will receive funding from the central government to buy-out Category 3 properties. The central government will pay the funding in instalments in advance after receiving the payment request from the council under the cost-sharing agreement (Refer to Note B4 Provision for Risk Category 3 property buy-outs for further details of the agreement). The group does not recognise this funding as an asset in the statement of financial position until the council issues the payment request to central government with the forecasted funding required to settle each tranche of Category 3 property buy-outs.

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 2023	Unaudited 6 months to 31 Dec 2022
Surplus after income tax	**1,360**	**1,628**
Add/(less) non-cash items:		
Depreciation and amortisation	653	629
Vested assets	(359)	(257)
Other non-cash items	64	(8)
Add/(less) items classified as investing or financing activities	**(6)**	**-**
Add/(less) movements in working capital items	**(673)**	**(990)**
Net cash inflow from operating activities	**1,039**	**1,002**

C3 Events after the reporting period

Water services reform programme

The water services legislation (namely the Water Services Entities Act 2022, the Water Services Legislation Act 2023 and the Water Services Economic Efficiency and Consumer Protection Act 2023), was repealed on 14 February 2024. As a result, the water services reform assets and operations as disclosed in 30 June 2023 financial statements will no longer be transferred to Entity A. The new government has announced that two further bills will be introduced this calendar year to progress their policy of Local Water Done Well, with the first introduced and enacted by mid-2024, and the second introduced in December 2024 and enacted by mid-2025. The impact of these bills on the group's accounts is uncertain.

Auckland regional fuel tax (RFT) updates

On 8 February 2024, Transport Minister Hon Simeon Brown stated that the RFT will end on 30 June 2024. This reduces the 10-year term by four years. Auckland Council receives around $150 million of RFT revenue each year so this results in a reduction of $600 million over the four years. Further, NZTA Waka Kotahi co-funding of around the same amount will also be foregone. This will affect the previously planned transport programme. The options and impacts of the RFT stopping are being considered through the Long-term Plan process.

At the same time, the Minister announced that the central government intends to pass legislation allowing the introduction of time of use charging in Auckland to ensure more reliable journey times for Aucklanders. This might include the potential use of value capture, tolling, and the use of public-private partnerships, among others, as tools to help deliver new infrastructure.

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 2023

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 2023 (hereafter the interim financial statements).

Conclusion

I have reviewed the interim financial statements of the Auckland Council Group on pages 20 to 33 which comprise the statement of financial position as at 31 December 2023, 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 2023, 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 ('NZ SRE 2410 (Revised)')*. 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 matter - *Uncertainties over the costs of Category 3 property buy-outs and Category 2 mitigations*

Without modifying my conclusion, I draw attention to Note B4 on pages 29 and 30, which outlines the significant uncertainty in estimating the provision of $459 million for the risk Category 3 property buy-outs. There is significant uncertainty related to the assumptions and judgements applied by management in estimating this provision.

I also draw attention to Note C1 on page 32, which explains that it is not possible to estimate the liability for risk Category 2 projects at present, and therefore this liability has not been recognised. The amount of this liability could be significant.

Auckland Council and central government have entered into a cost-sharing agreement to support Auckland City's recovery from the 2023 North Island weather events. This cost-sharing agreement includes the house buy-outs for those properties assessed as risk Category 3, and funding of improvements to property and community assets for properties assessed as risk Category 2.

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.

Andrew McConnell
Deputy Controller and Auditor-General
Wellington, New Zealand
28 February 2024

▲ Auckland city from Devonport

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 2023) 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 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.

Business combinations (continued)

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.

Impairment of assets (continued)

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.

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.

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).

Service Concession Arrangement (continued)

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*).

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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