

Auckland Council Group Quarterly Financial Report

31 December 2016

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Financial commentary

Overview

This Auckland Council Group Financial Report covers the six month period from 1 July 2016 to 31 December 2016. This report is unaudited.

Auckland Council Group (the Group) continues to manage its finances prudently in line with the Annual Plan and with close oversight over operational and capital expenditure. During the six months to 31 December 2016, the Group generated an operating surplus before gains and losses of \$966 million, against the phased budget of \$929 million.

The large surplus for the first six months of the year has been mainly driven by the recognition in full of 2016/17 rates revenue at the time of the issuance of ratings notice in July in accordance with accounting standards.

Revenue and expenditure

Total revenue excluding gains was \$6 million higher than phased budget primarily due to:

- higher:
 - volume of vested assets received than expected (\$18 million) driven by the timing of completion of infrastructure assets;
 - other revenue (\$8 million) including rental revenue increases arising from a larger portfolio than budgeted and higher than anticipated dividend revenue;
 - grants and subsidies (\$4 million) due to timing and one off grants received from New Zealand Transport Agency for transport infrastructure;
- partially offset by:
 - reductions in fees and user charges (\$16 million) due in part to lower than expected revenue from Ports of Auckland (POAL) driven by a reduction in volumes and lower than expected fare revenue from Auckland Transport;
 - lower rates revenue mainly due to the discounting applied to the uncollected portion of the rates revenue (\$5 million); and
 - the remaining variance predominately due to revenue expected to be collected later in the year than originally planned.

Total expenditure excluding losses is lower than budget by \$31 million primarily due to:

- lower:
 - depreciation and amortisation expenses due to the timing of the capitalisation of property, plant and equipment (\$13 million);
 - cost of goods and services mainly due to POAL as a result of the reduced volumes (\$13 million);
 - finance costs compared to budget (\$9 million);
 - consultancy costs (\$3 million);
- partly offset by:
 - increase in the weathertightness provision (\$11 million); and
 - the remaining variance predominately due to expenditure expected to be incurred later in the year than originally planned.

The net other gains of \$373 million are primarily non-cash book entries, driven by the decrease in the fair value of net derivative financial liabilities, resulting from rising long-term interest rates. This reverses the trend of the last two years of increasing net other losses as long-term interest rates fell.

Financial position

The total Group net assets increased by \$1.3 billion from 30 June 2016, the principal contributor being:

- increase in receivables (\$776 million) due to timing of rates receipts from ratepayers;
 - net investment in property, plant and equipment (\$336 million);
 - decrease in fair value of net derivative financial liabilities (\$349 million);
- and offset by:
- increase in borrowings (\$149 million).

During the six months the Group has invested \$713 million to expand and renew community and infrastructure assets. These were funded by operating cash flows including working capital movements and the balance from borrowings. The Group continues to manage its debt portfolio prudently and in accordance with its Annual Plan.

Statement of financial performance

\$million	Actual 6 months to 31 Dec 16	Budget ⁽¹⁾ 6 months to 31 Dec 16	\$ Variance to Budget 31 Dec 16		Annual Plan 12 months to 30-Jun-17 ¹
Revenue					
Rates	1,628	1,637	(9)	●	1,637
Fees and user charges	596	612	(16)	▲	1,228
Grants and subsidies	223	219	4	●	500
Development and financial contributions	78	82	(4)	◆	163
Vested assets	116	98	18	●	196
Other revenue	128	120	8	●	240
Finance revenue	8	3	5	●	5
Total revenue excluding gains	2,777	2,771	6	●	3,969
Expenditure					
Employee benefits	416	411	(5)	▲	811
Depreciation and amortisation	430	443	13	●	886
Grants, contributions and sponsorship	97	95	(2)	▲	125
Other operating expenses	657	673	16	●	1,380
Finance costs	211	220	9	●	465
Total expenditure excluding losses	1,811	1,842	31	●	3,667
Operating surplus before gains and losses	966	929	37	●	302
Net other losses	373	-	373	●	-
Share of surplus in associates and joint ventures	32	28	4	●	55
Surplus before income tax	1,371	957	414	●	357

● Favourable (within 1%) ▲ Unfavourable over 1% and up to 5% ◆ Unfavourable over 5%

¹ Annual Plan figures have been phased for the first six months of the financial year.

Key variances explained (actual to budget):

Fees and user charges

The \$16 million unfavourable result (actual to budget) was driven by

- reduced revenue from Ports of Auckland driven by a reduction in volumes (\$8 million), and
- lower public transport patronage and lower parking and enforcement revenue (totalling to \$8 million) from Auckland Transport, although patronage and parking and enforcement revenue are both up on the prior year.

Development and financial contributions

The \$4 million unfavourable result was driven by the timing of infrastructure developments. Compared to the same period 31 December 2015, the development and financial contributions revenue is up by \$10 million.

Development contribution funding is used to pay for the acquisition and building of new infrastructure assets required to meet Auckland's increasing population.

Employee benefits

The \$5 million higher than budget result was predominantly a result of a reduction in staff time and therefore costs recovered on capital works. This was driven by some delays in the timing of the projects and a focus on business as usual especially in Information and Communications Technology (ICT) team.

Grants, contributions and sponsorship

The actual result of \$97 million is in line with our phased budget. The slight unfavourable variance is due to timing of the release of the grants and unbudgeted payments to Auckland Theatre projects.

Statement of financial position

\$million	As at 31 Dec 16 (Actual)	As at 30 Jun 16 (Actual)
ASSETS		
Current assets		
Cash and cash equivalents (excluding bank overdraft)	222	137
Receivables and prepayments	1,045	275
Derivative financial instruments	1	-
Other financial assets	294	389
Inventories	35	28
Tax receivable	1	1
Non-current assets held-for-sale	85	43
Total current assets	1,683	873
Non-current assets		
Receivables and prepayments	30	24
Derivative financial instruments	183	263
Other financial assets	131	128
Property, plant and equipment	41,492	41,156
Intangible assets	493	478
Biological assets	2	2
Investment property	653	681
Investment in associates and joint ventures	1,083	1,074
Total non-current assets	44,067	43,806
Total assets	45,750	44,679
LIABILITIES		
Current liabilities		
Bank overdraft	1	9
Payables and accruals	602	607
Employee entitlements	92	90
Borrowings	1,546	1,447
Derivative financial instruments	4	7
Provisions	93	101
Total current liabilities	2,338	2,261
Non-current liabilities		
Payables and accruals	50	45
Employee entitlements	5	5
Borrowings	6,214	6,164
Derivative financial instruments	782	1,207
Provisions	271	290
Deferred tax liabilities	1,091	1,055
Total non-current liabilities	8,413	8,766
Total liabilities	10,751	11,027
Net assets	34,999	33,652
EQUITY		
Contributed capital	26,728	26,728
Accumulated funds	1,632	290
Reserves	6,639	6,634
Total equity	34,999	33,652

Statement of cash flows

\$million	6 months to 31 Dec 16 (Actual)	6 months to 31 Dec 15 (Actual)
Cash flows from operating activities		
Receipts from customers, rates, grants and other services	1,796	1,699
Interest received	7	6
Dividends received	2	35
Payments to suppliers and employees	(1,111)	(1,085)
Interest paid	(200)	(218)
Net cash inflow from operating activities	494	437
Cash flows from investing activities		
Sale of property, plant and equipment, investment property and intangible assets	42	9
Purchase of property, plant and equipment, investment property and intangible assets	(741)	(644)
Proceeds from sale of other financial assets	(52)	57
Acquisition of other financial assets	136	(39)
Advances from (to) external parties	2	(15)
Net cash outflow from investing activities	(613)	(632)
Cash flows from financing activities		
Proceeds from borrowings	858	952
Repayment of borrowings	(646)	(830)
Net cash inflow from financing activities	212	122
Net increase/(decrease) in cash and cash equivalents and bank overdraft	93	(73)
Opening cash and cash equivalents and bank overdraft	128	337
Closing cash and cash equivalents and bank overdraft	221	264