

Auckland Council Investments Ltd

Quarterly Report

Quarter ended 31 March 2017

CCO Governance and Monitoring Committee

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1. Executive Summary

The ACIL parent recorded an after tax surplus of \$77.1m for the nine months to March 2017, \$14.6m higher than the YTD budget (\$63.1m). This was mainly due to the higher than planned POAL dividend of \$53.7m vs budget of \$39.2m. The bulk of this increase is due to subvention payments received from Watercare.

POAL continue to meet their financial and volume targets in a challenging environment.

The AIAL share price increased from \$6.50 (30 June 2016) to \$6.76 (31 March 2017) during the nine months, leading to a \$69m increase in the value of shares owned by ACIL. As at 31 March 2017, the market value of ACIL's investment in AIAL was \$1.8 billion.

ACIL expects to meet its budgeted dividend to Auckland Council of \$85.9m.

2. Strategic issues and focus areas

ACIL is focussed on achieving the targets outlined in ACIL's 2016/19 SOI.

In particular,

- maintaining its governance role and responsibility; and
- encouraging initiatives to increase returns balanced by sound management of risk; and
- working with POAL to ensure commercial objectives take account of stakeholder interests; and
- seeking to optimise the value of AFSL by working with the Council, ATEED and AFSL to determine the long term future of AFSL.

3. Highlights for the last quarter

Auckland International Airport Limited (AIAL)

The AIAL share price increased from \$6.50 (30 June 2016) to \$6.76 (31 March 2017), representing an increase in ACIL's investment for the nine months of \$69 million. As at 31 March 2017, the market value of ACIL's investment in AIAL was \$1.8 billion.

AIAL has announced an interim dividend for the six months to 31 December 2016 of 10 cents per share. The dividend is imputed at the company tax rate of 28% and will be paid on 4 April 2017 to shareholders who are on the register at the close of business on 21 March 2017. ACIL's dividend income from AIAL for the 2016/17 financial year is expected to be \$3 million higher than the annual plan budget (\$48 million).

The AIAL Board has also elected to reinstate their dividend reinvestment plan to provide funding flexibility to support their investment in new infrastructure and growth opportunities. ACIL has made corresponding adjustments in the draft LTP budget during the Council's February 2017 budget refresh process. Following Council's decision on this matter, ACIL will not participate in the DRP.

Auckland Airport's international passengers (excluding transits) for the month of March increased by 6.6% to 834,781 in 2017 (compared with the same period last year). The 52,000 passenger increase on March 2016 was driven by increased capacity on Asia and Middle East routes. The later timing of Easter in April this year compared to late March in 2016, led to a decline on Tasman routes in March 2017 (-13,000 pax), which will be offset by higher April 2017 traffic.

Ports of Auckland Limited (POAL)

POAL paid a \$25.3 million interim dividend in February 2017, making a total \$53.7 million dividend income paid by POAL this year. This is \$14.5 million higher than the annual plan budget (\$39.2 million) with most of this increase occurring via the subvention payment from Watercare.

Features for the quarter include:

- Revenue for the quarter is up on budget and last year with higher container, breakbulk and car volumes. Costs for the quarter are in line with budget but ahead of last year due to extra spend on repairs and maintenance.
- Overall volumes to the quarter and year to date are ahead of last year and budget expectations.
- Construction of the northern berth at Fergusson is progressing. All piles have been installed and around 80% of the deck is complete.
- Expenditure on cranes for the Fergusson North wharf has been delayed to quarter four of 2017 and it is likely that the majority of this year's capital budget will now occur in next financial year. This is due to a challenge to the unitary plan on height restrictions.

- The Intelligent Terminals expenditure has continued during this quarter with the first milestone payment to be made next quarter.
- Majority of budgeted spend on Fergusson North, Northgate and the Fergusson Reefer Relocation will now occur in next financial year.
- Further meetings have been held with Council, ATEED and Panuku regarding the Mark Oxley/Pacific Marine Management proposal to berth larger cruise ships at Queens Wharf. The proposed inner dolphin option is subject to further technical work and risk assessment by the Auckland Harbourmaster and Maritime NZ.
- Lost time injury rate was one for the quarter ended 31 March 2017 (one for the same quarter last year).
- POAL is closely monitoring and managing health and safety at its workplace.

Auckland Film Studios Limited

The strategic issue facing AFSL is how it fits with ATEED's plans to encourage private sector investment in the screen production industry and how it progresses a rebuild, if any, at its Henderson studios. PDA have confirmed their long term interest in the existing Henderson site. ACIL believes that it should work with Council on options which would involve retaining the land in Council ownership while encouraging private sector involvement in managing existing, and expanding screen production facilities.

4. Future outlook

ACIL expects to meet its 2016/17 budgeted dividend payment to Auckland Council of \$85.9m.

5. Key Deliverables

Key deliverables from last quarter

Deliverable	\$'m	Completed/ carry over to next quarter/ deferred	Status	Comments
Finalise decision on AFSL re-build.	N/A	Carry over to next quarter		This decision is dependent on a workshop with Council on the overall support for the film industry in Auckland.
On-going monitoring of wholly owned subsidiaries	N/A	On going		Regularly meet with the Chair and Chief Executive of POAL, AFSL and AIAL
Council reporting requirements	N/A	Completed		ACIL Q3 reporting pack submitted to Council on time.
Annual plan	N/A	In progress		ACIL plans to deliver the annual plan on time
Draft 2017/2020 SOI	N/A	In progress		ACIL delivered the draft SOI on time
Appoint director to POAL	N/A	Completed in May		

*RAG Status:

- Green - Performance on target or better
- Amber - Target may not be met, corrective action taken
- Red - Target may not be met, action required

Key deliverables for next quarter (4-6 key items)

Deliverable	Comments
31 March quarterly report	Draft is due to Council 19 May 2017
Finalise Council strategy for AFSL	Finalise discussions with Auckland Council, PDA and ATEED and provide guidance to the AFSL Board
Budget to SAP	Cooperate with Council in completing the project
Holly 3 project(Financial reporting)	Cooperate with Council in implementing Holly 3 for ACIL
Annual plan	Updated annual plan is due to Council 30 June 2017
SOI	Final is due to Council 30 June 2017
Year End Audit	Work with Council Finance team to meet challenging audit timeframes

6. Financial Performance

\$'m	ACIL Parent Actual YTD 31 Mar 2017	ACIL Parent Budget YTD 31 Mar 2017	Variance	ACIL Parent Full year Budget 2017	ACIL Parent Full year Forecast 2017
Operational					
Revenue	77.6	63.1	14.6	86.9	86.9
AC funding	0.0	0.0	0.0	-	-
Expenditure excluding interest	0.6	0.8	0.2	1.1	1.1
Interest expense	0.0	0.0	0.0	0.0	0.0
Net surplus after tax	77.1	62.3	14.8	85.9	85.9
Dividend to Council	0.0	0.0	0.0	85.9	85.9
Capital					
Expenditure	-	-	-	-	-
AC funding	-	-	-	-	-
External funding	-	-	-	-	-

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7. Performance measures

Key performance measures

Measure	Year-end target	On track	Last Actual
Operating Surplus after Tax of the ACIL parent	\$85.9m	Expect to meet	\$66.5m
Return on Equity	6.8%	Expect to meet	21.4% *
Dividend Distributions	\$85.9m	Expect to meet.	\$66.5m
Quarterly report to the Accountability and Performance Committee	The quarterly report is provided within specified timeframes and meets requirements of the SEG	Target met	Target met
Timely consideration of relevant information with regard to candidates for POAL and AFSL director appointments	Competent Directors are appointed	POAL and AFSL are considered to have competent directors.	POAL and AFSL are considered to have competent directors.
POAL's Return on Equity	9.1%	Expect to meet	15.6% *
Exercise voting rights in AIAL on all decisions/motions requiring shareholder input	Voting rights are exercised	Target met	ACIL exercised its voting rights at the AIAL ASM in October 2016.
AFSL's Net Profit After Tax	NPAT is positive	Expect to meet	\$0.8m

* includes revaluations

8. Contribution to Māori outcomes

ACIL's management of strategic assets provides financial returns to the Auckland Council which can be used by the council to deliver services and programmes, including services and programmes of particular benefit to Maori.

ACIL is a member of Te Toa Takatini -Maori Responsiveness High Performance Council established by Council's executive leadership group. ACIL has encouraged POAL and AFSL to develop knowledge of and support Council's policies and contribution to Maori wellbeing.

POAL is entering into a partnership with iwi and the local community to restore and enhance the environment of POAL land around the signal station at Manukau South Head, an area of culture significance to Ngati Te Ata.

9. Key Local Board issues

ACIL has offered to meet all Local Boards and advisory boards to provide them with a presentation on ACIL's performance and objectives.

10. Risk Management

- i. ACIL follows and applies Auckland Council's Enterprise Risk Management Framework. ACIL management is responsible for identifying, assessing, controlling and managing risks. The risks are identified in a risk register showing for each risk, its consequence and likelihood on a scale of 1 to 5 which enables a risk score and risk rating to be identified. The risk register is reviewed by the board. Risks are those events which if they occur will result in loss to the organisation. Losses may be financial, reputational, reduction in efficiency or effectiveness etc.
- ii. There has been no change in ACIL's approach to risk management.
- iii. There are no outstanding internal or external audit issues.
- iv. All controls are operating effectively. No events have occurred or are anticipated that will have a financial impact on the Council Group.
- v. All controls are operating effectively and currently no events have occurred at a senior management or governance level that would impact on the wellbeing or reputation of ACIL or Auckland Council.