

# Auckland Council Group Quarterly Financial Report

30 September 2017

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## Financial commentary

### Overview

This Auckland Council Group Financial Report covers the three month period from 1 July 2017 to 30 September 2017. 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 three months to 30 September 2017, the Group generated an operating surplus before gains and losses of \$1,376 million, when compared against the phased budget of \$1,539 million. The large surplus for the first three months of the year has been mainly due to the recognition in full of 2017/18 rates revenue at the time of the issuance of ratings notice in July in accordance with accounting standards. The difference between actual and budgeted operating surplus of \$163 million is largely driven by the variance relating to the City Rail Link Limited partly offset by the favourable variance in vested asset revenue.

### City Rail Link (CRL)

When the Annual Budget 2017/18 was approved, the receivable from the Crown for the transfer of the City Rail Link (CRL) assets was shown as a grant. With the execution of the contracts, the receivable from the Crown for the Crown's 50% reimbursement for stage 1 works, is now recognised as a reduction against the "Property, plant and equipment" in the statement of financial position. Only the reimbursement of the finance charge received from the Crown is recognised in the statement of financial performance.

The accounting treatment of Auckland Council's investment in City Rail Link Limited effective 1 July 2017 is still being finalised.

### Revenue

Net unfavourable variance in revenue was \$161 million. Allowing for the unfavourable variance related to the CRL of \$229 million and favourable vested asset revenue of \$77 million leave a net unfavourable variance of \$9 million which is driven by:

- lower than expected development and financial contributions of \$12 million due to timing of developments; and,
- fees and user charges lower than budget by \$7 million mainly due to lower volumes of resource consents and building consents processed during the quarter.

The above unfavourable variances were partly offset by:

- higher than expected dividend and rental income of \$3 million and infrastructure growth charge of \$3 million; and,
- interest income higher than expected by \$6 million mainly driven by the Crown's reimbursement of finance charges on CRL stage 1 works costs.

### Expenses

Total expenses are generally in line with budget with a minor \$2 million unfavourable variance due to recognition of an addition to weathertightness provision of \$15 million and other minor expenses of \$1 million. The unfavourable variance is partly offset by depreciation and amortisation being lower than budget by \$14 million. This is mainly driven by a delay in the timing of capitalisation of the projects.

### Gains and Losses

Net other losses of \$53 million are primarily due to non-cash book entries, driven by changes in fair value of the interest rate swaps, resulting from lower long-term interest rates.

### Financial Position

Total Group net assets increased by \$1,314 million during the first three months of this financial year.

The principal contributor being

- increase in net rates receivables of \$1,116 million as a result of recognising upfront the 2017/18 rates at the time of the issuance of the rating notices.
- investment in property, plant and equipment, net of depreciation, of \$246 million.
- reduction in payables and provision of approximately \$134 million.
- increase in derivative financial assets and other receivables of \$85 million.

partly offset by:

- sale of the remaining Diversified Financial Assets Portfolio of \$222 million.
- minor increase in borrowings, net of cash and cash equivalents of \$48 million.

## Financial commentary (continued)

### **Cash Flow Statement**

During the three months the Group has invested \$430 million cash to expand and renew community and infrastructure assets. These were funded by operating cash flows including working capital movements and the sale of the remaining balance of the Diversified Financial Assets (DFA) Portfolio. The Group continues to manage its debt portfolio prudently and in accordance with its Annual Plan.

## Statement of financial performance

\$million	Actual 3 months to 30 Sep 17	Budget <sup>(1)</sup> 3 months to 30 Sep 17	\$ Variance to Budget 30 Sep 17		Annual Plan 12 months to 30-Jun-18 <sup>1</sup>
<b>Revenue</b>					
Rates	1,691	1,691	-	●	1,710
Fees and user charges	316	323	(7)	▲	1,256
Grants and subsidies <sup>(2)</sup>	105	336	(231)	◆	677
Development and financial contributions	42	54	(12)	◆	214
Vested assets	117	40	77	●	202
Other revenue	70	64	6	●	277
Finance revenue	16	10	6	●	8
<b>Total revenue excluding gains</b>	<b>2,357</b>	<b>2,518</b>	<b>(161)</b>	◆	<b>4,344</b>
<b>Expenditure</b>					
Employee benefits	219	219	-	●	864
Depreciation and amortisation	208	222	14	●	925
Grants, contributions and sponsorship	86	83	(3)	▲	134
Other operating expenses	353	340	(13)	▲	1,419
Finance costs	115	115	-	●	465
<b>Total expenditure excluding losses</b>	<b>981</b>	<b>979</b>	<b>(2)</b>	●	<b>3,807</b>
<b>Operating surplus before gains and losses</b>	<b>1,376</b>	<b>1,539</b>	<b>(163)</b>	◆	<b>537</b>
Net other gains (losses)	(53)	(2)	(51)	●	-
Share of surplus in associates and joint ventures	1	1	-	●	61
<b>Surplus before income tax</b>	<b>1,324</b>	<b>1,538</b>	<b>(214)</b>	◆	<b>598</b>

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

(1) Annual Plan figures have been phased for the first three months of the financial year.

(2) When the Annual Budget 2017/18 was approved, the receivable from the Crown for the transfer of CRL assets was shown as a grant. Subsequently with the execution of the contracts, the receivable from the Crown for the transfer of CRL assets is recognised as reduction against "Property, plant and equipment" in the statement of financial position and only the reimbursement of the finance charge received from the Crown is recognised in the statement of financial performance.

## Statement of financial position

\$million	As at 30 Sep 17 (Actual)	As at 30 Jun 17 (Actual)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (excluding bank overdraft)	209	337
Receivables and prepayments	1,743	345
Derivative financial instruments	2	-
Other financial assets	54	276
Inventories	36	35
Non-current assets held-for-sale	106	332
<b>Total current assets</b>	<b>2,150</b>	<b>1,325</b>
<b>Non-current assets</b>		
Receivables and prepayments	9	9
Derivative financial instruments	224	170
Other financial assets	133	141
Property, plant and equipment	43,607	43,361
Intangible assets	505	511
Investment property	738	735
Investment in associates and joint ventures	1,096	1,096
Other non-current assets	11	11
<b>Total non-current assets</b>	<b>46,323</b>	<b>46,034</b>
<b>Total assets</b>	<b>48,473</b>	<b>47,359</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank overdraft	6	6
Payables and accruals	574	688
Employee entitlements	85	95
Borrowings	775	1,125
Derivative financial instruments	4	7
Provisions	72	82
<b>Total current liabilities</b>	<b>1,516</b>	<b>2,003</b>
<b>Non-current liabilities</b>		
Payables and accruals	49	49
Employee entitlements	5	5
Borrowings	7,445	7,175
Derivative financial instruments	869	865
Provisions	377	374
Deferred tax liabilities	1,122	1,112
<b>Total non-current liabilities</b>	<b>9,867</b>	<b>9,580</b>
<b>Total liabilities</b>	<b>11,383</b>	<b>11,583</b>
<b>Net assets</b>	<b>37,090</b>	<b>35,776</b>
<b>EQUITY</b>		
Contributed capital	26,728	26,728
Accumulated funds	2,264	951
Reserves	8,098	8,097
<b>Total equity</b>	<b>37,090</b>	<b>35,776</b>
<b>Note to the Statement of Financial Position</b>		
Borrowings, net of cash and cash equivalents and bank overdraft	<b>8,017</b>	<b>7,969</b>

## Statement of cash flows

\$million	3 months to 30 Sep 17 (Actual)	3 months to 30 Sep 16 (Actual)
<b>Cash flows from operating activities</b>		
Receipts from customers, rates, grants and other services	929	846
Interest received	3	2
Dividends received	2	2
Payments to suppliers and employees	(577)	(556)
Income tax refunded	1	-
Interest paid	(124)	(101)
<b>Net cash inflow from operating activities</b>	<b>234</b>	<b>193</b>
<b>Cash flows from investing activities</b>		
Sale of property, plant and equipment, investment property and intangible assets	17	16
Purchase of property, plant and equipment, investment property and intangible assets	(430)	(344)
Proceeds from sale of other financial assets	244	152
Acquisition of other financial assets	-	(18)
Advances from (to) external parties	(12)	3
<b>Net cash outflow from investing activities</b>	<b>(181)</b>	<b>(191)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	773	799
Repayment of borrowings	(954)	(343)
<b>Net cash inflow (outflow) from financing activities</b>	<b>(181)</b>	<b>455</b>
<b>Net increase/(decrease) in cash and cash equivalents and bank overdraft</b>	<b>(128)</b>	<b>457</b>
Opening cash and cash equivalents and bank overdraft	331	128
<b>Closing cash and cash equivalents and bank overdraft</b>	<b>203</b>	<b>585</b>

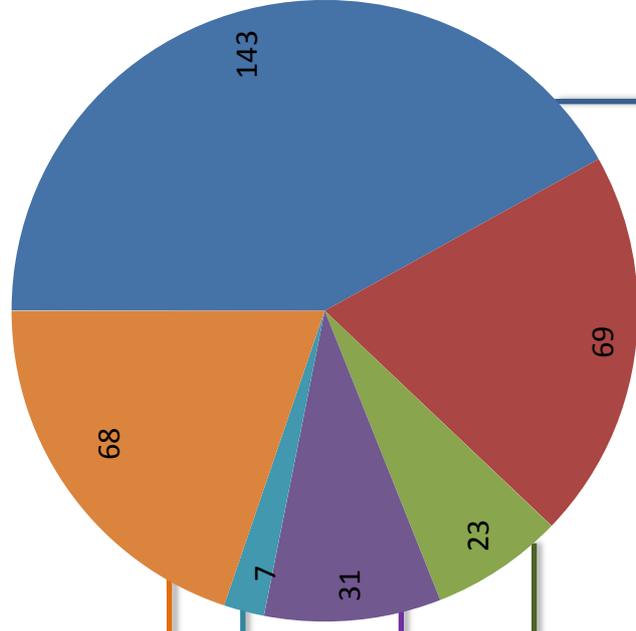
# Group Capital Expenditure

3 months to 30 September 2017

Quarter 1 phased budget - \$399m  
 Quarter 1 actual spend - \$341m (85%)  
 Variance - \$58m (15%)

(\$million)

- Transport
- Watercare
- Parks and Recreation
- Stormwater
- Community Services
- Other



**Other**  
 ICT projects - \$4m  
 Strategic property developments - \$2m  
 Town centres, open space and upgrades - \$8m  
 Administration renewals - \$4m  
 Organisation development - \$1m  
 New Market Development - \$1m  
 Hobsonville residential development - \$1m  
 Ports of Auckland Projects - \$23m  
 RFA Renewals & other projects - \$5m  
 Economic Growth and visitor economy - \$4m  
 Waste management - \$2m  
 Waterfront development - \$2m  
 Other minor projects under \$1m - \$11m

**Community Services**  
 Library collections - \$2m  
 Art facility, Community, centre renewals & town hall upgrade - \$2m  
 Library refurbishment - \$2m  
 Other minor projects - \$1m

**Stormwater**  
 Growth/renewal projects - \$10m  
 Project delivery & ops - \$14m  
 Flood projects - \$1m  
 Other minor projects - \$6m

**Parks and Recreation**  
 Parks & aquatic facility renewals, upgrades and development - \$15m  
 Multi purpose facilities - \$2m  
 Parks Coastal asset renewals - \$2m  
 Other minor projects under \$1m - \$4m

**Watercare**  
 Mangere wastewater treatment plant - \$9m  
 Warkworth wells water treatment - \$5  
 Pukekohe Trunk Sewer Upgrade - \$4m  
 Fred Thomas Drive wastewater & Storage Tank - \$4m  
 Waikato Expansion Stage - \$3m  
 Wairau wastewater rising Main - \$2m  
 Glen Eden Storage & Pipe Upgrade - \$2m  
 Central interceptor feasibility - \$1m  
 Water Service Connections & Meters 2017 - \$3m  
 Wynyard Quarter Wastewater Pump Station - \$2m  
 Network Sewer Renewals 2016 - \$6m  
 Puketutu Island Rehabilitation - \$2m  
 DeltaV MQ Controller - system hardware upgrade - \$2m  
 Other water and wastewater projects under \$1m - \$24m

**Transport**  
 City Rail Link - \$18m  
 Rail Improvements - \$4m  
 Road and footpath Renewals - \$41m  
 Bus Interchange - \$8m  
 Other Public transport projects - \$5m  
 AMETI - \$8m  
 Walking and Cycling - \$10m  
 Mill Road Improvement - \$8m  
 Other road and footpath projects - \$29m  
 AT Hop system & other software - \$11m  
 Parking and enforcement - \$1m