

Auckland Council Group Financial Report

For the nine months ended 31 March 2018

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Financial commentary

Overview

This Auckland Council Group Financial Report covers the nine-month period from 1 July 2017 to 31 March 2018. 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 nine months to 31 March 2018, the group generated an operating surplus before gains and losses of \$788 million, when compared against the phased budget of \$898 million. The large surplus for the half 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 \$110 million is largely driven by the variance relating to accounting for the City Rail Link Limited partly offset by the favourable variance in vested asset revenue.

City Rail Link (CRL)

When the Annual Budget 2017/2018 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, was 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 was recognised in the statement of financial performance.

Revenue

Net unfavourable variance in revenue was \$106 million. Allowing for the unfavourable variance of \$229 million related to CRL leaves a net favourable variance of \$123 million, which is mainly driven by:

- higher vested asset revenue of \$119 million due to timing and volume of infrastructure assets received
- finance income of \$23 million mainly driven by Crown's reimbursement of finance charges on City Rail Link stage 1 works and first quarter initial funding to City Rail Link Limited totalling \$14.5 million and higher level of cash and short-term deposits
- higher grants and subsidies of \$10 million from New Zealand Transport Agency driven by timing of funding
- other revenue of \$9 million mainly due to higher dividend income and other revenue

partly offset by:

- lower than expected development and financial contributions of \$30 million due to timing of developments
- fees and user charges lower than budget by \$5 million mainly due to lower than expected resource and building consents revenue and public transport income, offset by favourable port operations revenue driven by new subsidiaries, Nexus and Conlinxx.

The remaining minor favourable difference is made up of small immaterial variances.

Expenses

Expenses were higher by \$4 million against phased budget mainly due to the following:

- additional weathertightness costs of \$69 million due to provision assumption changes and an increase in repair costs for multi-unit dwelling claims

partly offset by:

- depreciation and amortisation below phased budget by \$44 million due to revised useful life of transport assets as a result of latest revaluation cycle and delays in the completion of projects
- underspend of \$10 million in consultancy and professional fees due to timing of roading and strategic projects
- underspend in employee benefits of \$6 million mainly driven by unfilled vacancies at Auckland Council Parent.

The remaining minor favourable difference is made up of small non material variances.

Gains and losses

Net other losses of \$185 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 commentary (continued)

Financial position

Total group net assets increased by \$635 million during the first nine months of this financial year. The principal contributors being:

- movement in receivables of \$384 million mainly due to net uncollected rates receivable not yet due but recognised at the time of the issuance of the 2017/2018 rating notices in July 2017
- net increase of \$702 million in property, plant and equipment, intangible assets, investment property and investments in associates and joint ventures, mainly attributable to City Rail Link Limited for the construction of City Rail Link

partly offset by:

- an increase in borrowings, net of cash and cash equivalents, of \$346 million.

Cash flow statement

During the nine months, the group has invested \$1,115 million, net of equity investment for City Rail Link assets, to expand and renew community and infrastructure assets. These were funded by net operating cash flows of \$862 million and the balance from borrowings.

Statement of financial performance

\$million	Actual 9 months to 31 Mar 2018	Budget ⁽¹⁾ 9 months to 31 Mar 2018	\$ Variance to Budget 31 Mar 2018		Annual Plan 12 months to 30-Jun-18
Revenue					
Rates	1,704	1,706	(2)	●	1,710
Fees and user charges	943	948	(5)	●	1,256
Grants and subsidies ⁽²⁾	361	580	(219)	◆	677
Development and financial contributions	131	161	(30)	◆	214
Vested assets	271	152	119	●	202
Other revenue	201	193	8	●	277
Finance revenue	31	8	23	●	8
Total revenue excluding gains	3,642	3,748	(106)	▲	4,344
Expenditure					
Employee benefits	642	648	6	●	864
Depreciation and amortisation	641	685	44	●	925
Grants, contributions and sponsorship	117	117	-	●	134
Other operating expenses	1,107	1,052	(55)	▲	1,419
Finance costs	347	348	1	●	465
Total expenditure excluding losses	2,854	2,850	(4)	●	3,807
Operating surplus before gains and losses	788	898	(110)	◆	537
Net other gains (losses)	(185)	3	(188)	◆	-
Share of surplus in associates and joint ventures	43	32	11	●	61
Surplus before income tax	646	933	(287)	◆	598

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

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

⁽²⁾ When the Annual Budget 2017/2018 was approved, the receivable from the Crown for the transfer of the City Rail Link (CRL) assets was shown as a grant and subsidies, budget includes accounting treatment difference of \$229 million. With the execution of the contracts, the receivable from the Crown for the Crown's 50% reimbursement for stage 1 works, was 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 was recognised in the statement of financial performance.

Statement of financial position

\$million	As at 31 Mar 2018 (Actual)	As at 30 Jun 17 (Actual)
ASSETS		
Current assets		
Cash and cash equivalents (excluding bank overdraft)	423	337
Receivables and prepayments	729	345
Derivative financial instruments	7	-
Other financial assets	402	276
Inventories	40	35
Non-current assets held-for-sale	131	332
Total current assets	1,732	1,325
Non-current assets		
Receivables and prepayments	9	9
Derivative financial instruments	246	170
Other financial assets	137	141
Property, plant and equipment	43,754	43,361
Intangible assets	516	511
Investment property	744	735
Investment in associates and joint ventures	1,391	1,096
Other non-current assets	14	11
Total non-current assets	46,811	46,034
Total assets	48,543	47,359
LIABILITIES		
Current liabilities		
Bank overdraft	8	6
Payables and accruals	604	688
Employee entitlements	81	95
Borrowings	1,058	1,125
Derivative financial instruments	8	7
Tax payable	1	-
Provisions	105	82
Total current liabilities	1,865	2,003
Non-current liabilities		
Payables and accruals	85	49
Employee entitlements	5	5
Borrowings	7,672	7,175
Derivative financial instruments	976	865
Provisions	391	374
Deferred tax liabilities	1,138	1,112
Total non-current liabilities	10,267	9,580
Total liabilities	12,132	11,583
Net assets	36,411	35,776
EQUITY		
Contributed capital	26,728	26,728
Accumulated funds	1,570	951
Reserves	8,113	8,097
Total equity	36,411	35,776

Statement of cash flows

\$million	9 months to 31 Mar 18 Actual	9 months to 31 Mar 17 Actual
Cash flows from operating activities		
Receipts from customers, rates, grants and other services	2,981	2,723
Interest received	29	10
Dividends received	33	26
Payments to suppliers and employees	(1,836)	(1,754)
Income tax refunded	2	-
Interest paid	(347)	(315)
Net cash inflow from operating activities	862	690
Cash flows from investing activities		
Sale of property, plant and equipment, investment property and intangible assets	115	47
Purchase of property, plant and equipment, investment property and intangible assets	(1,203)	(1,168)
Acquisition of other financial assets	(347)	(230)
Proceeds from sale of other financial assets	243	268
Crown reimbursement of City Rail Link stage 1 costs	218	-
Equity investment in City Rail Link Limited	(65)	-
Advances (to)/from external parties	(2)	(5)
Net cash outflow from investing activities	(1,041)	(1,088)
Cash flows from financing activities		
Proceeds from borrowings	3,017	2,745
Repayment of borrowings	(2,760)	(2,038)
Proceeds from/(payments for) derivative financial instruments	6	(57)
Net cash inflow from financing activities	263	650
Net increase/(decrease) in cash and cash equivalents and bank overdrafts	84	252
Opening cash and cash equivalents and bank overdrafts	331	128
Closing cash and cash equivalents and bank overdrafts	415	380

Capital Expenditure

9 months to 31 March 2018

Annual Plan (nine months budget)* - \$1,355m
Total spend - \$1,115m (82%)
Variance - \$240m (18%)
 *Excludes funding for City Rail Limited of \$59 million, actual funding made amounted to \$65 million

