Date:	**Thursday 2 May 2024**
Time:	**10.00am**
Meeting Room:	**Reception Lounge**
Venue:	**Auckland Town Hall 301-305 Queen Street Auckland**

Tira Hautū / Governing Body

OPEN MINUTE ITEM ATTACHMENTS

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Note: The attachments contained within this document are for consideration and should not be construed as Council policy unless and until adopted. Should Councillors require further information relating to any reports, please contact the relevant manager, Chairperson or Deputy Chairperson.

Auckland Council Group

Monthly Financial Performance Report

31 March 2024

Note: This financial information has been prepared on a provisional basis. It will be validated during quarterly reporting.

Auckland Council Group capital expenditure

$ million		YTD Actual	YTD Budget	YTD Variance	% YTD Delivery	Full year Budget
		31 March 2024				
Capital expenditure	**A**	**2,169**	**2,246**	**(77)**	**97%**	**3,206**
Auckland Council[1]		329	359	(30)	92%	606
Auckland Transport		669	728	(59)	92%	1,058
Watercare Services Limited		810	819	(9)	99%	1,086
Tātaki Auckland Unlimited[1]		41	48	(7)	85%	67
Eke Panuku Development[1]		41	58	(17)	71%	77
Port of Auckland Limited		25	33	(8)	76%	44
Under delivery assumption		-	(59)	59	0%	(78)
Investment in City Rail Link Limited		254	260	(6)	98%	346

A. Capital expenditure year-to-date was $2,169 million against a budget of $2,246 million or a 97 per cent delivery. Variances across the group were largely due to project deferrals driven by reprioritisation and delays in flood recovery projects across the group.

Auckland Council capital expenditure was $30 million below budget mainly due to the delays within Healthy Waters projects of $14 million and timing of the delivery of ICT projects. This has been partly offset by overspend in kerbside waste bin purchases which is forecasted to not impact the full-year position.

Further $4 million was underspent on Myers Park and Midtown Programme. $3 million underspent within Coastal Renewal Projects also contributed to the above variance. Projects highlights in March include:

- Manurewa War Memorial Park heat pump installation has been completed and the heat pump units were commissioned on 28 March 2024.
- 24A College Hill, Freemans Bay, Storm Water Pipe Renewal achieved practical completion.
- Brassey Road reserve stormwater renewal project achieved practical completion. The project mitigates the health and safety risks associated with the existing stormwater drain and remedied surface erosion issues.

Auckland Transport's unfavourable variance against budget was mainly caused by delayed commencements, customer consultation processes taking longer than anticipated, corrective actions required through Single Stage Business Case reports and changes associated with the recent Government Policy Statement process. The key project categories behind budget were; rapid bus and rail ($33 million), bus projects ($10million), active modes ($10 million) and renewal and flood recovery projects ($3 million). Projects highlights in March include:

- Rodney Targeted Rate Programme - Leigh Road and Ahuroa Road construction completed.
- Orakei Infrastructure Projects – Ngāpipi Pedestrian bridge lifting completed.
- Walking Programme – Causeway and Marua Road construction has been completed.
- Speed Management Programme - Devonport Town Centre project construction completed.

Watercare capital expenditure was $9 million behind plan as a result of project reprioritisation. Flood related projects were $52 million below budget, Kainga Ora shovel ready projects and Redhill's Wastewater Scheme were behind plan by $18 million. Queen Street Diversion also $6 million behind budget. These have been partially offset by higher spending on the Central Interceptor project of $55 million for settling escalated claims and unbudgeted Orakei Main Sewer repair of $13 million. Projects highlights in March include:

- Central Interceptor Tunnel Boring Machine (TBM) reached the 10-kilometre mark late March as it heads to Pt Erin, Herne Bay to build the 16.2-kilometre Central Interceptor wastewater tunnel.
- On 12 March 2024, the 45-million litre third reservoir at the Redoubt Road Reservoir complex went into service. It takes the site's overall storage capacity to 165 million litres and increases the city's overall treated water storage capacity to more than 700 million litres.

[1] Capital expenditure, income, and operating expenses in relation to Auckland Council-owned assets that are managed by Eke Panuku and Tātaki Auckland Unlimited, such as Auckland Film Studios, are included within Eke Panuku and Tātaki Auckland Unlimited's capital investment and operating performance.

Auckland Council Group capital expenditure (continued)

$ million		YTD Actual	YTD Budget	YTD Variance	% YTD Delivery	Full year Budget
		31 March 2024				
Capital expenditure	**A**	**2,169**	**2,246**	**(77)**	**97%**	**3,206**
Auckland Council		329	359	(30)	92%	606
Auckland Transport		669	728	(59)	92%	1,058
Watercare Services Limited		810	819	(9)	99%	1,086
Tātaki Auckland Unlimited[1]		41	48	(7)	85%	67
Eke Panuku Development[1]		41	58	(17)	71%	77
Port of Auckland Limited		25	33	(8)	76%	44
Under delivery assumption		-	(59)	59	0%	(78)
Investment in City Rail Link Limited		254	260	(6)	98%	346

Tātaki Auckland Unlimited variance to budget of $7 million was mainly due to the ongoing delays with flood remediation work which is expected to be partially rectified in the coming months. Projects highlights in March include:

- Western Springs Reinstatement works to remove backfilled soil on private land behind the wall has commenced.
- Upgrade of 34 Corporate Suites at Go Media Stadium has been completed.

Eke Panuku capital expenditure was $17 million behind budget mainly due to the deferral of a $12 million land purchase in Avondale. Projects highlights in March include Upgrade of Papa ki Awataha Jessie Tonar Scout Reserve in Northcote was completed.

Port of Auckland variance to budget was largely caused by the Engineering Workshop project timing. Projects highlights in March include:

- Three of the automatic straddles being converted to manual have cabs connected.
- Fergusson Terminal pavements - Stage 1 complete.

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Auckland Council Group capital funding sources

The following table shows how the group funds the capital investment, which should be read in conjunction with the capital expenditure table above. The total amount of capital funding sources aligns to the group's total capital expenditure.

$ million		YTD Actual (31 March 2024)	YTD Budget	YTD Variance	% YTD Variance	Full year Budget
Capital funding sources		**2,169**	**2,246**	**(77)**	**-3%**	**3,031**
Development contributions	**A**	170	201	(31)	-16%	269
Capital grants and subsidies	**B**	417	424	(7)	-2%	617
Cash proceeds from asset sales	**C**	13	51	(38)	-75%	164
Insurance recoveries	**D**	1	73	(72)	-99%	110
Proceeds from Airport share sale	**E**	833	866	(33)	-4%	866
Change in underlying net debt[2]		(181)	(236)	55	-23%	(150)
Operating funding		916	867	49	6%	1,155

A. **Development Contributions** were $31 million unfavourable to budget. This was due to a delay in adding new investment priority areas to the contributions policy, including Inner Northwest, City Rail Link stations, and Auckland Housing Programme areas in Tāmaki, Māngere, Northcote, Oranga and Mount Roskill. Furthermore, development growth was lower than planned due to economic factors such as interest rates, inflation and property prices.

B. **Capital grants and government subsidies** were $7 million unfavourable to budget. Watercare was $33 million below budget due to $12 million of current year budgeted Kainga Ora shovel ready revenue being recognised in the prior financial year and a timing difference in invoicing based on reaching project milestones. This was partially offset by Auckland Transport $25 million favourable variance driven by NZ Upgrade Programme's Eastern Busway funding of $40 million partially offset by $16 million lower NZTA funding due to lower capital spend.

C. **Cash proceeds from asset sales** were behind budget due to the general slowdown in the property market and certain assets have not been sold as planned.

D. Lower than anticipated **insurance recoveries** year-to-date as insurers are still processing claims relating to the weather events that took place around Auckland Anniversary/Cyclone Gabrielle in 2023. Auckland Council Group now expects that majority of insurance recoveries will be received in FY25.

E. In August 2023, Auckland Council (the council) sold 7 per cent of Auckland International **Airport's shares** at an average share price of $8.11 per share which was lower than anticipated and resulted in unfavourable variance. The proceeds of $833 million were used to reduce the council's debt as it matures.

[2] This excludes the change in non-cash accounting adjustments for items such as foreign exchange and commercial paper discount adjustments of $54 million. Refer to Group debt management section in the following page for the movement in the net debt.

Auckland Council Group debt management

Covenant and borrowing thresholds

Requirement	Group/parent	Imposed by	Compliance	Date
Gross borrowings from LGFA <40% of LGFA's total local government assets	Group	LGFA	✓	Mar-24
Net Debt/ Total Revenue <300%*	Parent	LGFA	✓	Jun-23
Net Interest/Annual Rates Income <30%	Parent	LGFA	✓	Jun-23
Net Interest/Total Revenue < 20%	Parent	LGFA	✓	Jun-23
Liquidity >110%	Group	LGFA	✓	Mar-24
Debt/Adjusted Operating Revenue <290%	Group	Council/S&P Global	✓	Jun-23
Balance after capital deficit ratio (5-year average) <20%	Group	Council/S&P Global	✓	Jun-23
Interest/Adjusted Operating Revenues <15%	Group	Council/S&P Global	✓	Jun-23
Minimum credit rating (review date)	Group	Council	Moody's Aa2 ✓	Oct-23
			S&P Global AA ✓	Feb-24

*Alternate net debt to total revenue covenants apply in interim years at 30 June as follows: 2024<290% and 2025<285%

Group net debt

($ millions)	Opening 1 Jul 2023	Movement	Actual 31 Mar 2024	Annual Plan 30 Jun 2024	Variance 30 Jun 2024
Gross debt	12,457	87	12,544	11,903	(641)
Add: Bank overdraft	4	(4)	-	-	-
Less: Cash and Term deposits > 90 days	(110)	(318)	(428)	(100)	328
Net debt	**12,351**	**(235)**	**12,116**	**11,803**	**(313)**

Net debt decreased by $235 million from the start of the year mainly due to the proceeds from the partial sale of Auckland Airport shares (for $833 million) in August 2023 which was used to reduce group debt, partially offset by new borrowings for group capital funding requirements and working capital. Net debt as at year end is expected to be higher than budget mainly due to the lower capital funding sources driven by insurance recoveries not received, timing of asset sales and lower development contributions.

Attachment A

Item 8

Auckland Council Group operating performance

		31 March 2024				
($ millions)		YTD Actual	YTD Budget	YTD Variance	% YTD Variance	Full year Budget
Net direct expenditure		**649**	**736**	**87**	**12%**	**1,028**
Direct revenue	**A**	**2,077**	**2,010**	**67**	**3%**	**2,680**
Fees and user charges		1,248	1,239	9	1%	1,646
Operating grants and subsidies		436	419	17	4%	562
Other direct revenue		393	352	41	12%	472
Direct expenditure	**B**	**2,726**	**2,746**	**20**	**1%**	**3,708**
Employee benefits		870	852	(18)	-2%	1,146
Grants, contributions & sponsorship		157	143	(14)	-10%	170
Other direct expenditure		1,699	1,751	52	3%	2,392
Other key operating lines						
General rates	**C**	2,215	2,223	(8)	0%	2,225
Targeted rates		302	300	2	1%	300
Vested assets	**D**	517	319	198	62%	456
Finance revenue	**E**	29	6	23	383%	8
Regional fuel tax revenue		112	113	(1)	-1%	150
Non-direct revenue	**F**	35	85	(50)	-59%	135
Depreciation and amortisation		980	962	(18)	-2%	1,293
Finance costs	**G**	452	402	(50)	-12%	536
Non-direct expenditure	**H**	486	-	(486)	-	(0)

A. Direct revenue continued to be favourable to budget mainly due to higher than budgeted Infrastructure Growth Charges (IGC) and developer revenue generated by Watercare. Operating grants received from various government organisations after the extreme weather events contributed to the favourable direct revenue including grants from NZTA Waka Kotahi for emergency funding, from Department of the Prime Minister and Cabinet for setting up the Recovery Office and Ministry of Social Development for employment of navigators.

Direct revenue from fees and user charges were favourable to budget due to more than anticipated bus patronage and higher volume of building consents, licenses and permits granted partially offset with lower than budgeted water usage and container terminal demand.

B. Direct expenditure was in line with budget (1 per cent or $20 million favourable).

Employee benefits would be favourable to the budget by $6 million after Watercare's budget re-alignment between this line item and Other direct expenditure. This was mainly driven by longer than expected staff vacancies, particularly in areas that require specialised skills such as engineering and IT.

Unfavourable variance in grants, contributions and sponsorship were primarily attributed to POAL's vested assets to Waikato District Council which was not budgeted. In addition to this, the unfavourable variance was due to TAU grants being budgeted as capital expenditure, however, actuals were recognised in grants expenses.

Other direct expenditure would be $28 million favourable to budget after Watercare's budget re-alignment (refer employee benefits above). This favourable variance is mainly due to lower than budgeted roading network maintenance costs, public transport contract costs, IT and advertising expenses at AT. Also, there is a favourable variance at Watercare in relation to savings in software licensing fees and the capitalisation of the Puketutu Cell Wall project, partially offset by additional costs in relation to road-related asset damage by flooding and the collapse of the Orakei Main Sewer.

C. General rates revenue represents general rates charged for the full financial year. Refer to page 8 for more details.

D. Vested assets revenue was favourable to budget due to more assets vested to the group than planned from developers in parks, roading and water and wastewater.

Auckland Council Group operating performance (continued)

($ millions)		YTD Actual	YTD Budget	YTD Variance	% YTD Variance	Full year Budget
		31 March 2024				
Net direct expenditure		**649**	**736**	**87**	**12%**	**1,028**
Direct revenue	**A**	**2,077**	**2,010**	**67**	**3%**	**2,680**
Fees and user charges		1,248	1,239	9	1%	1,646
Operating grants and subsidies		436	419	17	4%	562
Other direct revenue		393	352	41	12%	472
Direct expenditure	**B**	**2,726**	**2,746**	**20**	**1%**	**3,708**
Employee benefits		870	852	(18)	-2%	1,146
Grants, contributions & sponsorship		157	143	(14)	-10%	170
Other direct expenditure		1,699	1,751	52	3%	2,392
Other key operating lines						
General rates	**C**	2,215	2,223	(8)	0%	2,225
Targeted rates		302	300	2	1%	300
Vested assets	**D**	517	319	198	62%	456
Finance revenue	**E**	29	6	23	383%	8
Regional fuel tax revenue		112	113	(1)	-1%	150
Non-direct revenue	**F**	35	85	(50)	-59%	135
Depreciation and amortisation		980	962	(18)	-2%	1,293
Finance costs	**G**	452	402	(50)	-12%	536
Non-direct expenditure	**H**	486	-	(486)	-100%	-

E. Finance revenue was favourable to budget due to investment of the proceeds from the sale of Auckland International Airport shares while waiting for debt to mature over September and October, and higher than budgeted cash holdings from pre-funding.

F. Non-direct revenue was unfavourable to budget mainly due to planned flood-related insurance recoveries that have not yet been received. The insurance claims are currently being reviewed by our insurers and expected to be received in FY25.

G. Finance cost is unfavourable to budget due to delay in reducing debts by proceeds from the sale of Auckland International Airport Shares and increase in long-term interest rates on unhedged debt.

H. Non-direct expenditure includes provisions and other sundry non-cash expenses. Refer to page 8 for more details.

Auckland Council operating performance

($ millions)		YTD Actual	YTD Budget	YTD Variance	% YTD Variance	Full year Budget
		31 March 2024				
Net direct expenditure		**827**	**876**	**49**	**6%**	**1,228**
Direct revenue	**A**	**383**	**336**	**47**	**14%**	**440**
Fees and user charges		274	232	42	18%	310
Operating grants and subsidies		57	54	3	6%	60
Other direct revenue		52	50	2	4%	70
Direct expenditure	**B**	**1,210**	**1,212**	**2**	**0%**	**1,668**
Employee benefits		480	485	5	1%	662
Grants, contributions & sponsorship		140	138	(2)	-1%	162
Other direct expenditure		590	589	(1)	0%	844
Other key operating lines						
General rates	**C**	2,224	2,234	(10)	0%	2,236
Targeted rates		303	300	3	1%	300
Vested assets	**D**	180	87	93	107%	125
Development Contribution	**E**	170	201	(31)	-15%	269
Finance revenue		157	137	20	15%	186
Regional fuel tax revenue		112	113	(1)	-1%	150
Non-direct revenue		68	59	9	15%	88
Depreciation and amortisation		233	248	15	6%	330
Finance costs	**F**	446	396	(50)	-13%	528
Non-direct expenditure	**G**	484	-	(484)	-100%	-

A. Direct revenue was ahead of budget as fees and user charges were $47 million favourable to budget. This has been largely driven by higher volume of building consents, inspections, licenses and permits being granted.

B. Direct expenditure was in line with budget.
Unfavourable variance in Other direct expenditure was attributed to additional costs of processing higher consent volumes. This was partly offset by less employee benefits than budgeted in relation to ongoing unplanned vacancies.

C. General rates was $10 million (less than 1 per cent) unfavourable to budget mainly due to an unbudgeted $5 million time-value accounting adjustment which will be reversed over the year, and an additional $3 million unbudgeted remission of rates provided following the Jan/Feb 2023 storm and flooding to affected homes (836 accounts).

D. Vested assets revenue was mainly attributable to receipt of stormwater and community assets. Asset acquisition and vesting timing fluctuates depending on factors beyond council's control and these fluctuations mainly cause variances from the annual budget.

E. Development contributions were $31 million unfavourable to budget. This is because there was a delay in adding new investment priority areas to the contributions policy, including Inner Northwest, City Rail Link stations, and Auckland Housing Programme areas - Tāmaki, Māngere, Northcote, Oranga and Mount Roskill. Furthermore, development growth was lower than planned due to economic factors such as interest rates, inflation and property prices.

F. Finance costs. Variance is explained on page 7.

G. Non-direct expenditure was mainly attributed to the $459 million provision for buying Category 3 properties that were affected by the 2023 Auckland Anniversary and Cyclone Gabrielle severe weather events. The remaining movements include a $45 million additional weathertightness provision for new active claims and $4 million capital expenditure write-offs, partly offset by the $22 million reversal of a provision for contaminated land and closed landfill, and $4 million reversal of a provision for legal claims against the council. These provisions will be re-estimated at the financial year end.

Auckland Transport operating performance

($ millions)		YTD Actual	YTD Budget	YTD Variance	% YTD Variance	Full year Budget
		31 March 2024				
Net direct expenditure		**244**	**288**	**44**	**15%**	**403**
Direct revenue	**A**	**613**	**597**	**16**	**3%**	**802**
Fees and user charges		200	193	7	4%	264
Operating grants and subsidies		370	358	12	3%	477
Other direct revenue		43	46	(3)	-7%	61
Direct expenditure	**B**	**857**	**885**	**28**	**3%**	**1,205**
Employee benefits		122	130	8	6%	173
Other direct expenditure		735	755	20	3%	1,032
Other key operating lines						
AC operating funding		310	316	(6)	-2%	439
AC capital funding	**C**	286	351	(65)	-19%	513
Vested assets	**D**	268	197	71	36%	275
Capital subsidies revenue	**E**	384	359	25	7%	545
Finance revenue		2	-	2	-	435
Capital subsidies revenue - other		-	-	-	-	6
Depreciation and amortisation		393	407	14	3%	552
Finance costs		13	21	8	38%	28
Non-direct expenditure		1	-	(1)	-	-

A. Direct revenue was $16 million favourable to budget mainly from higher than budgeted operating grants due to the additional funding from NZTA Waka Kotahi after the weather events for emergency work.

In addition to this, fees and user charges were ahead of budget (achieved 80% of pre-covid level) as public transport revenue increased in connection with higher bus patronage than budgeted and price increase. This was partially offset by unfavourable on-street parking revenue because of lower occupancy and later than budgeted parking tariff increases.

B. Direct expenditure was $28 million favourable to budget due to lower expenses incurred in relation to maintaining the roading network and other minor maintenance, public transport contract costs, IT and advertising.

Also, employee benefits were lower than budget as recruitment in vacant positions took longer and lower discretionary spend incurred including learning and development.

C. AC capital funding was $65 million lower than budget due to under delivery of capital expenditure – refer pages 2 and 3 for more detail.

D. Vested assets were $71 million over budget due to more vested assets received from developers. Vested assets have been received mainly at Warkworth, Hobsonville, and Long Bay property developments.

E. Capital subsidies revenue was $25 million favourable to budget due to NZ Upgrade Programme's Eastern Busway funding of $40 million partially offset by $16 million lower NZTA funding due to lower capital spend.

Tātaki Auckland Unlimited operating performance

		31 March 2024				
($ millions)		YTD Actual	YTD Budget	YTD Variance	% YTD Variance	Full year Budget
Net direct expenditure		**66**	**65**	**(1)**	**-2%**	**85**
Direct revenue	**A**	**81**	**76**	**5**	**7%**	**98**
Fees and user charges		41	42	(1)	(0)	54
Operating grants and subsidies		12	7	5	71%	25
Other direct revenue		28	27	1	4%	19
Direct expenditure	**B**	**147**	**141**	**(6)**	**-4%**	**183**
Employee benefits		65	61	(4)	-7%	78
Grants, contributions & sponsorship		7	4	(3)	-75%	8
Other direct expenditure		75	76	1	1%	97
Other key operating lines						
AC operating funding		70	67	3	5%	86
AC capital funding		38	48	(10)	-20%	67
Finance revenue		1	0	1	19	-
Non-direct revenue		2	-	2	-	-
Depreciation and amortisation		43	42	(1)	-3%	56

A. Direct Revenue was $5 million favourable to budget, mainly driven by more operating grants being received for major events and regional events such as Synthony, ASB Classic Pipeline, NZRL Triple header and Ocean Festival. These events were mainly funded by the Regional Event Fund and took place earlier than planned. In addition to this, the number of visitors at the Auckland Zoo and Maritime Museum were strong.

B. Direct expenditure was $6 million unfavourable to budget mainly because of increases in certain expenses including employee benefits due to the implementation timing of restructuring, and additional casual staff needed for revenue-generating events. Another major increase in expenses relate to capital grants paid by TAU being budgeted as capital expenditure but recognised in operating expenditure. These capital grants were funded by Auckland Council for Stardome and Waka Pacific roof maintenance, Waka Pacific LED replacement and CCTV at Trust Arena.

Eke Panuku operating performance

($ millions)		YTD Actual (31 March 2024)	YTD Budget	YTD Variance	% YTD Variance	Full year Budget
Net direct expenditure	**A**	**14**	**18**	**4**	**22%**	**24**
Direct revenue		**13**	**13**	**-**	-	**18**
Other direct revenue		13	13	-	-	18
Direct expenditure	**B**	**27**	**31**	**4**	**13%**	**42**
Employee benefits		23	25	2	8%	33
Other direct expenditure		4	6	2	33%	8
Other key operating lines						
AC operating funding		14	18	(4)	-22%	24

A. Net direct expenditure was $4 million favourable to budget driven by the favourable direct expenditure explained below.

B. Direct expenditure was favourable to budget as employee benefits were $2 million favourable to budget due to more vacant positions than budgeted and timing differences in training costs.

Moreover, other direct expenditure was $2 million favourable to budget as consultancy and communication costs had been delayed.

Attachment A

Item 8

Eke Panuku managed activities operating performance

($ millions)		31 March 2024 YTD Actual	YTD Budget	YTD Variance	% YTD Variance	Full year Budget
Net direct revenue		**(8)**	**-**	**8**	**0%**	**(1)**
Direct revenue	**A**	**42**	**37**	**5**	**14%**	**45**
Fees and user charges		2	1	1	1	2
Other direct revenue		40	36	4	11%	43
Direct expenditure	**B**	**34**	**37**	**3**	**8%**	**44**
Other direct expenditure		34	37	3	8%	44
Other key operating lines						
Depreciation and amortisation		17	17	-	-	23
Asset sales target	**C**	13	51	(38)	-75%	164

These results relate to the Auckland Council-owned property portfolio which is managed by Eke Panuku. They are not included in Auckland Council's results and exclude the net direct revenue that Eke Panuku has generated for properties managed for Auckland Transport, which was in line with the budget.

A. Direct revenue was $5 million favourable to budget due to $1.4 million of rental revenue from a property in Wynyard Quarter that was expected to be sold in 2023/2024 and a small group of shops in Avondale that was expected to have been demolished. There was a one-off back payment for a rental increase on two tenancies for $0.9 million, and the recovery of operating expenses from tenants was $1.5 million ahead of budget, however the latter was offset in direct expenditure.

B. Direct expenditure was $3 million favourable to budget due to timing difference which is expected to reverse by year end. Regeneration spend was $1.5 million lower than budget and Marinas was $0.8 million below budget due to timing of spending and are expected to catch up by the end of FY24.

C. Asset sales were unfavourable to budget due to the general slowdown in the property market and certain assets have not been sold as planned.

Port of Auckland Limited operating performance

($ millions)		31 March 2024 YTD Actual	YTD Budget	YTD Variance	% YTD Variance	Full year Budget
Net direct revenue		**(78)**	**(92)**	**(14)**	**15%**	**(122)**
Direct revenue	**A**	**254**	**264**	**(10)**	**-4%**	**344**
Fees and user charges		242	253	(11)	-4%	330
Other direct revenue		12	11	1	9%	14
Direct expenditure	**B**	**176**	**172**	**(4)**	**-2%**	**222**
Employee benefits		89	90	1	1%	120
Grants, contributions & sponsorship		9	-	(9)	-	-
Other direct expenditure		78	82	4	5%	102
Other key operating lines						
Depreciation and amortisation		32	33	1	0	44
Finance costs		15	15	-	-	20

A. Direct revenue was $10 million unfavourable to budget mainly due to lower than anticipated demurrage and storage revenue driven by less container volumes and easing of congestion at the container terminal. This was partially offset by the higher than budgeted increased pricing and cruise income.

B. Direct expenditure was $4 million unfavourable mainly due to grants, contributions & sponsorship in relation to building and vesting of an overpass bridge over the main Kiwi Rail line and roading assets to Waikato District Council which were unbudgeted. These are part of conditions for a resource consent given by Waikato District Council to POAL to establish freight hub in Waikato. The overpass bridge connects Kiwi Rail to the freight hub land and roads are around the border of the freight hub site.

Watercare Services Limited operating performance

($ millions)		YTD Actual	YTD Budget	YTD Variance	% YTD Variance	Full year Budget
		31 March 2024				
Net direct revenue		**(414)**	**(418)**	**(4)**	**1%**	**(585)**
Direct revenue	**A**	**731**	**717**	**14**	**2%**	**981**
Fees and user charges		506	527	(21)	-4%	698
Other direct revenue		225	190	35	18%	283
Direct expenditure	**B**	**317**	**299**	**(18)**	**-6%**	**396**
Employee benefits		91	60	(31)	-52%	80
Other direct expenditure		226	239	13	6%	316
Other key operating lines						
AC capital funding		8	-	8	100%	-
Vested assets	**C**	68	36	32	90%	56
Capital subsidies revenue - other	**D**	17	50	(33)	-66%	52
Non-direct revenue	**E**	-	58	(58)	-100%	80
Depreciation and amortisation	**F**	260	218	(42)	-19%	290
Finance costs		111	101	(10)	-10%	139

A. Direct revenue was favourable to budget by $14 million mainly because Infrastructure Growth Charges (IGC) and development revenue continued to steadily improve ($24 million), the revenue from the contract with Waikato District Council[1] continued tracking ahead of plan due to higher than anticipated capital works revenue and funding from the Department of Internal Affairs (DIA) associated with Water Reform secondees. In addition to this, settlement fees for Veolia legacy were received in February, higher than planned interest and rental income, recovery of 3rd Party damage, paper invoices and debt collection charges and higher than anticipated laboratory charges to external customers contributed to favourable variance.

These favourable results were partially offset by unfavourable water and wastewater revenue to budget ($21 million) due to delays in price increases and lower than planned consumption.

B. Direct expenditure was unfavourable to budget by $18 million.

Employee benefits would be higher than planned by $7 million if the budget was re-aligned between employee benefit and other direct expenditure. The unfavourable variance was mainly driven by unbudgeted reform-related staff costs of $3 million (however, this is partly offset with Other direct revenue) and lower than planned capitalisation of labour, overtime and timing differences in annual leave utilised.

Other direct expenditure would be unfavourable to budget by $11 million after the budget re-alignment mentioned above. The unbudgeted costs of repairing damaged assets during the 2023 weather events amounted to $11 million. The collapse of the Orakei Main sewer on 25 September has also resulted in $7.5 million operating cost to date. This has been partially offset by savings in IS Managed Services/Software as a Service/Software Licensing fees and the capitalisation of chemicals associated with the Puketutu Cell Wall project.

C. Vested asset revenue was $32 million favourable to budget due to higher than anticipated completion of works by third parties and vested to Watercare.

D. Capital grants and subsidies relating to Kainga Ora shovel ready projects were $33 million unfavourable to budget due to the timing difference between revenue recognition (recognised in FY23 as milestones achieved) and budgeting (invoiced in FY24 therefore budgeted in FY24). These works are milestone based and it is anticipated that the timing differences will be resolved in subsequent months.

E. Non-direct revenue was $58 million unfavourable to budget mainly due to planned flood-related insurance recoveries that are still in progress. The insurance claim was going through review by the insurance provider. The full year forecast at Watercare now excludes the insurance recoveries value of $80 million as it will unlikely be received by the end of FY24.

F. Depreciation was $42 million unfavourable to budget mainly driven by the asset revaluation at the end of the prior year being higher than expected.

[1] Watercare operates Waikato District's water, wastewater, and storm water services. Waikato District Council owns all the assets, and Watercare manages their water, wastewater and storm water infrastructure above and below ground. This includes providing operational services as well as capital works.