

Auckland Council Investor Update

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Main focus and overview

Main Focus

- Coping with growth and the infrastructure challenge
- Engagement with central government
- Governance and management changes
- Financial results – 30 June 2018
- Long term plan
- Long term funding strategy

Overview

3rd Most Liveable City in the world¹



- New Zealand's largest and fastest growing city (200k new residents in the last 5 years - population 1.7m)
- 35% of New Zealand's population (4.9m)
- Auckland region's GDP 38% of NZ GDP – (\$243b)
- Auckland's annual GDP growth rate 2.3% (vs 2.7% for NZ)



50%

of New Zealand's growth in the last year



Home to
60%

of New Zealand's Top 200 companies



4

Out of every 10 Kiwis will be living in Auckland by 2043



400,000

Dwellings needed in the next 30 years (currently 550,000)

So a typical week in Auckland

825

New residents



137

Additional seniors
over 65



2.5

New doctors



472

New jobs required



52

Additional students



17 or 3.5

Additional buses or
trains filled



278

New dwellings
required



2

New teachers



825

Additional cars
on our roads



And a busy few years still to come...

- America's Cup
 - Building a base on time, affordable, and sensitive to Aucklanders views of the waterfront
- APEC
 - 22,000 delegates over the year
 - Leaders week includes the Presidents of the US, Russia, and China and 10,000 attendees
 - Largest ever event held by central government
- Delivering our major infrastructure projects
 - City Rail Link
 - Light Rail
 - Central Interceptor

Long Term Plan (LTP)



Financial overview - key points

- Over \$26 billion of capital investment, focused on transport and water infrastructure to support new housing areas and intensification of existing areas
- General rate increases of 2.5% for next two years and 3.5% thereafter
- Funding raised through new targeted rates ring-fenced to protect the environment and improve water quality
- Debt limit set at 265% of revenue
- Continue policy of moving towards fully funding depreciation by 2025

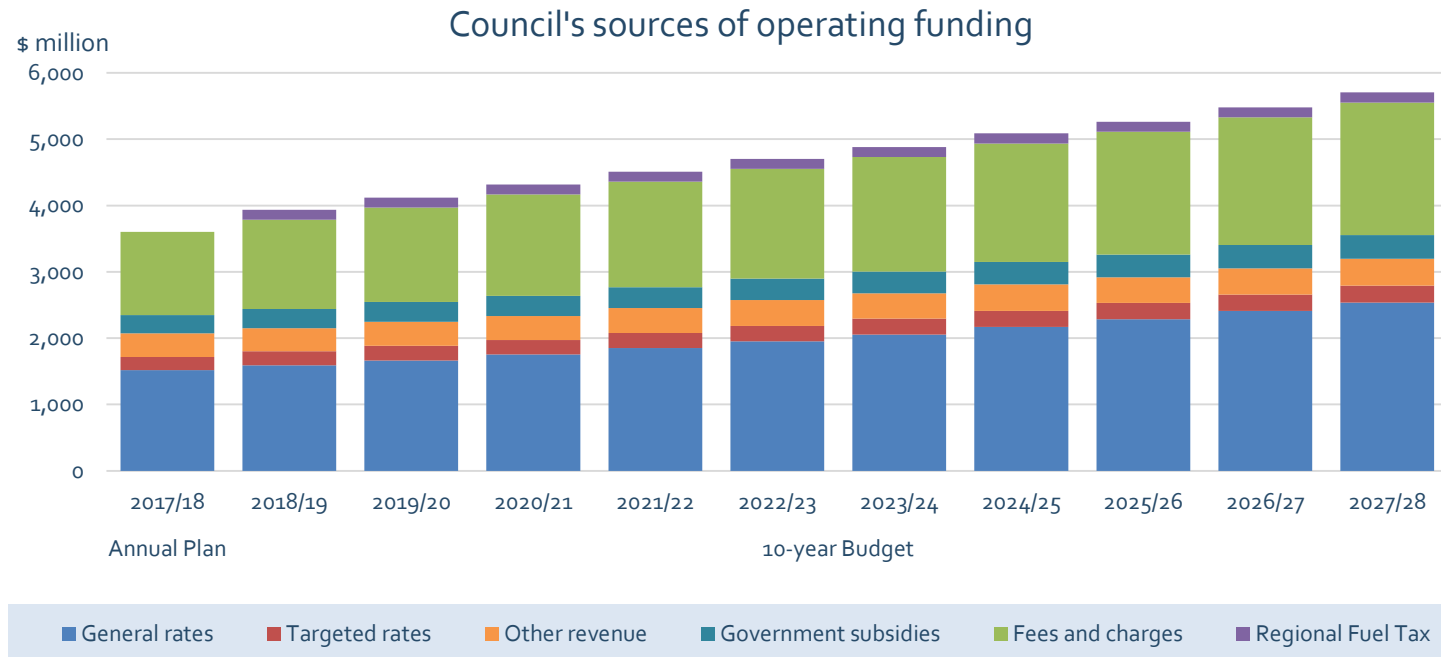
Operating revenue

Government subsidies

- Updated commitment to transport subsidies through Auckland Transport Alignment Project (ATAP)

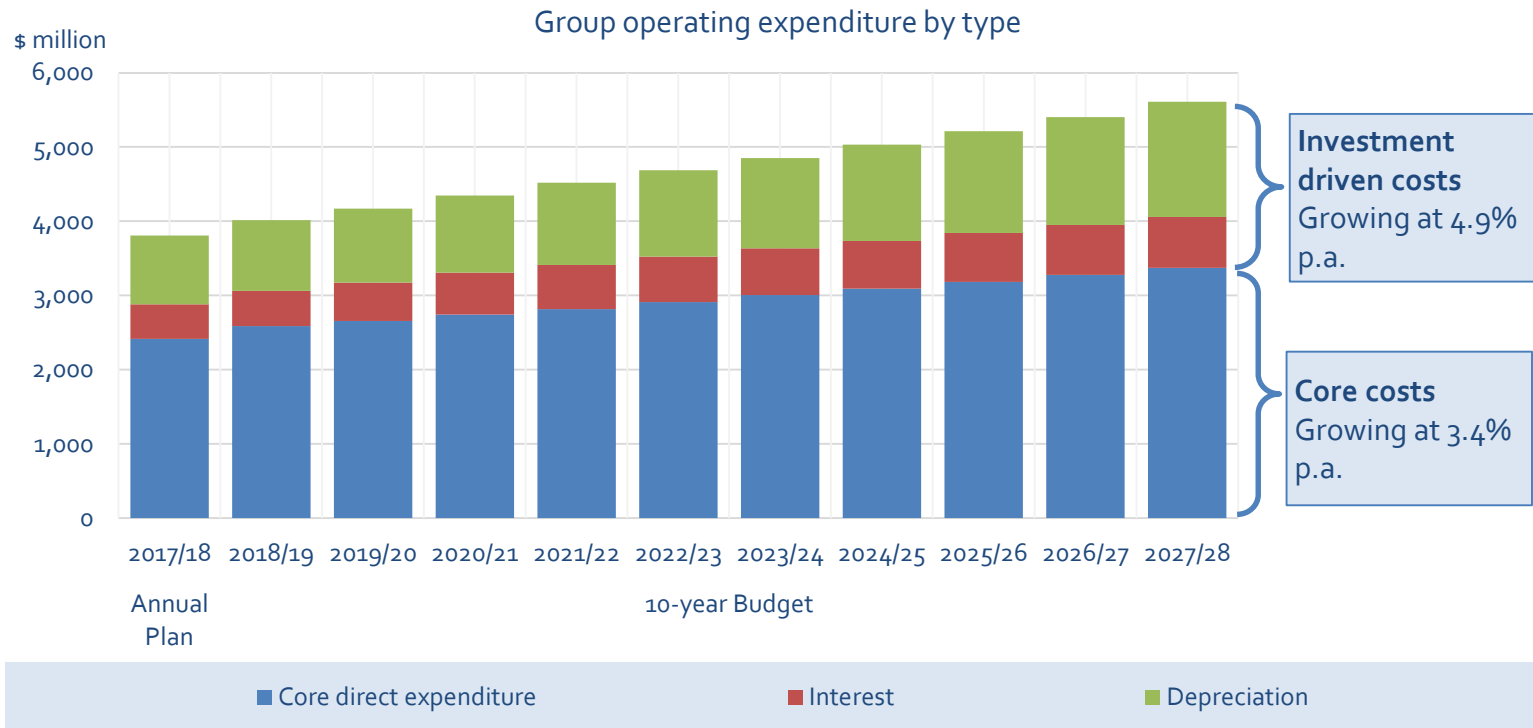
Other fees and charges (e.g. consenting fees or public transport fares)

- Set to represent appropriate levels of cost recovery
- Increases with inflation each year



Growth in operating costs

- Ownership and operation costs of new and improved assets
- Delivering services to a growing population
- Increased investment in certain areas such as environmental protection

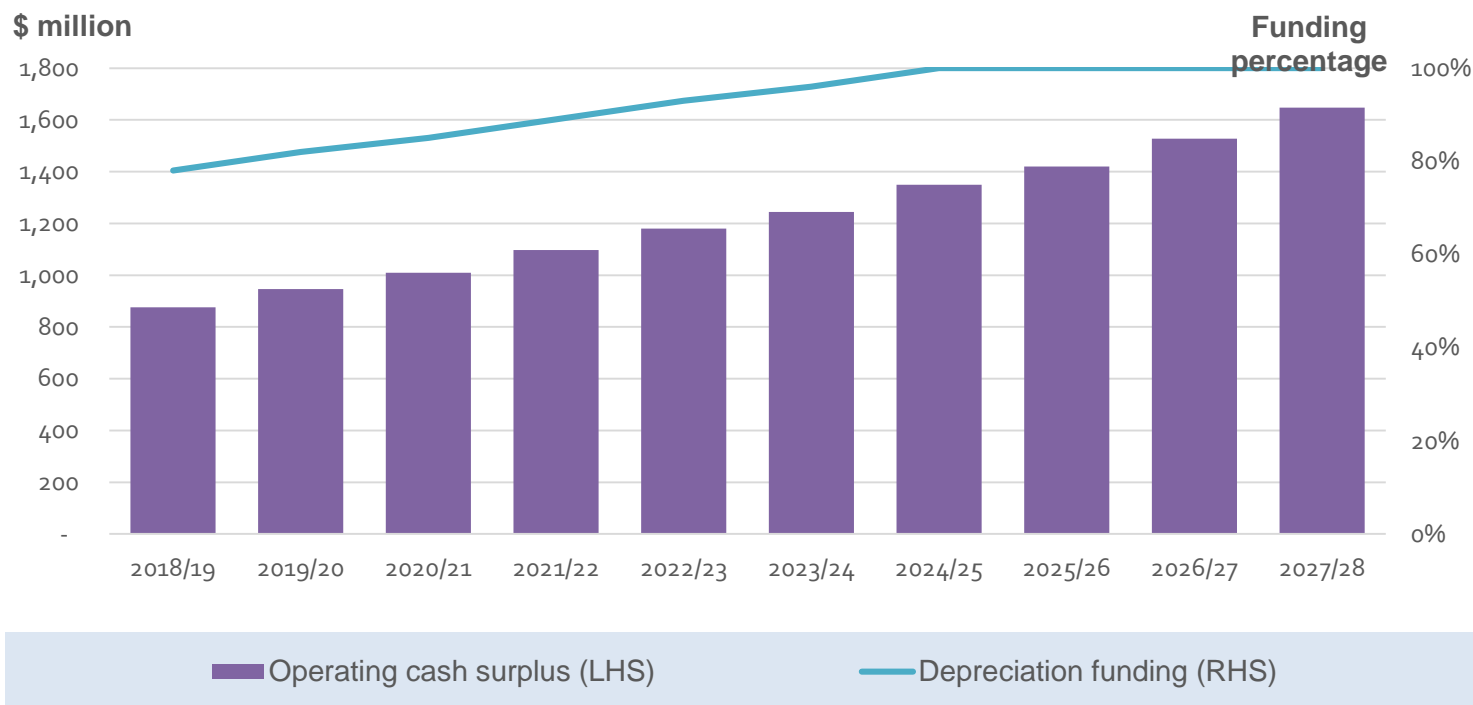


Operating cash surplus

Growing operating cash surplus:

- Aligned with depreciation funding policy
- Allows continued capital investment with prudent growth in debt

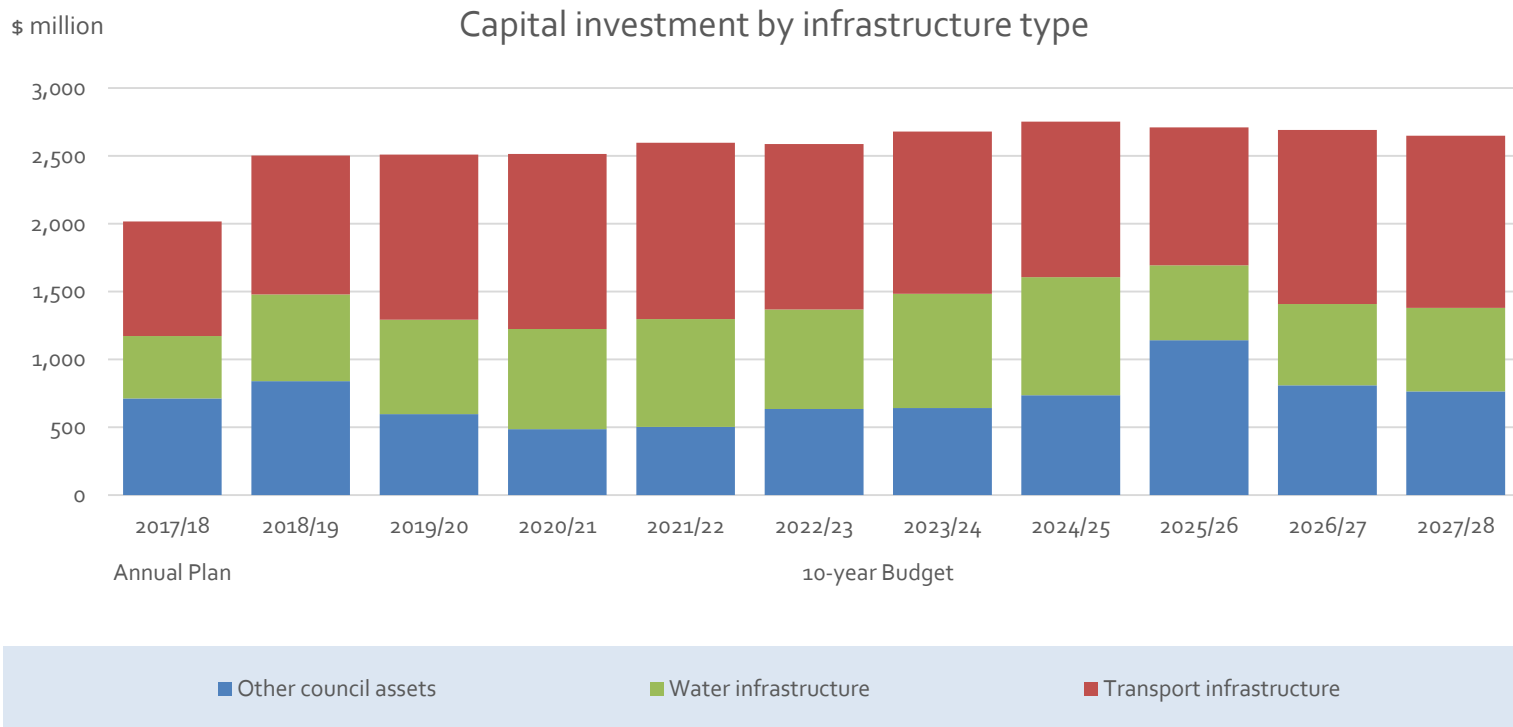
Operating cash surpluses and depreciation funding policy



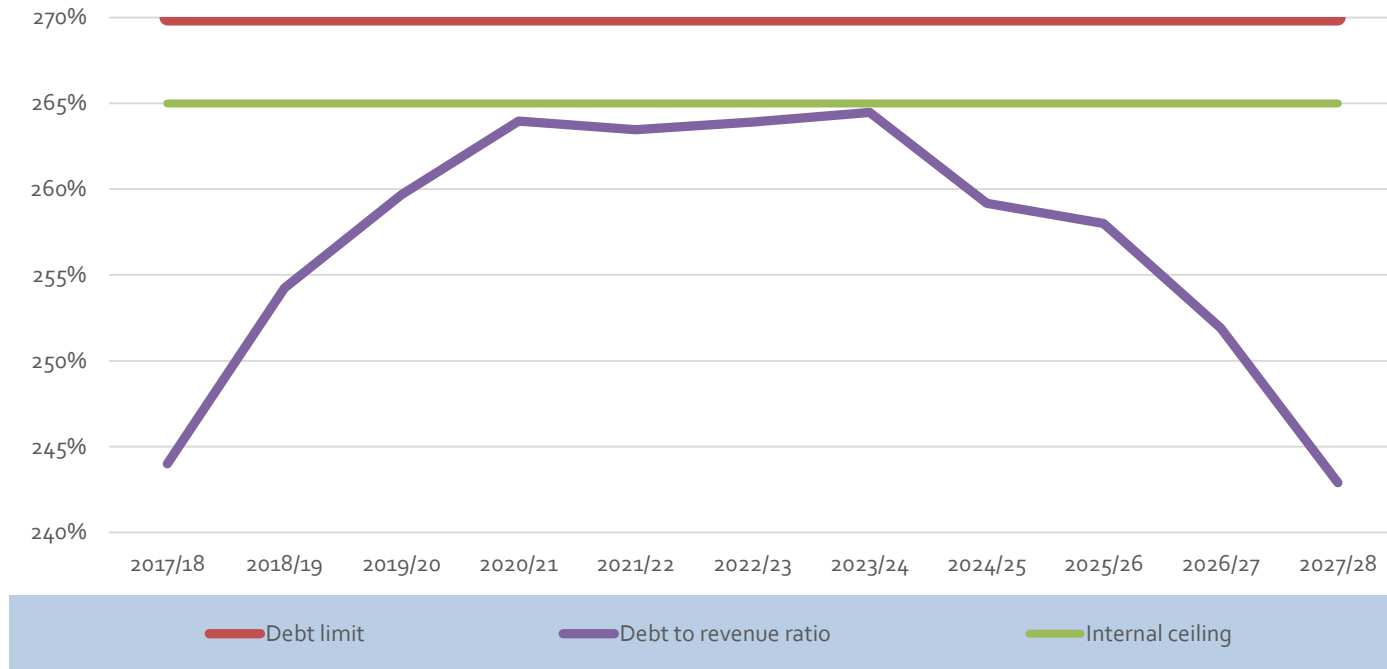
Capital investment for Auckland

Investment focused on transport and water infrastructure to:

- deliver expected service levels in the face of significant population growth
- support new housing areas and intensification of existing areas



Debt to revenue ratio



Auckland Council has set a prudential target of debt below 265% of revenue

Key initiatives with the Crown

City Rail Link (CRL)

- Council has planned for \$1.43 billion of net investment in CRL
- Recently agreed to scope change to future-proof stations for higher capacity
- Tenders for main works to be received in early 2019

Housing Infrastructure Fund (HIF)

- Council has included \$350 million through HIF to accelerate developing 6200-7200 dwellings in West Auckland
- \$136.3 million recognised as an interest-free loan
- Very close to finalising agreement with Crown

Crown Infrastructure Partners (CIP)

- Council's 10-year Budget includes \$600 million of investment by CIP
- Good progress in negotiating first deal
- Also opportunities to use CIP in the future to deliver major infrastructure projects such as light rail

Group financial highlights



Group financial highlights 30 June 2018

- **Solid operational performance** - Operating surplus before gains and losses: \$659 million
- **Large investment programme** - Capital expenditure: \$1.7 billion (71% CCOs)
- **Asset base growth** - Total assets: \$51.5 billion (up by \$4.1 billion)
- **Lower net debt than expected** - Net debt: \$8.2 billion (up by \$253 million)



For the period (NZ\$m)	30 June 2018	30 June 2017
Rates revenue	1,707	1,641
Services and other revenues	2,836	2,488
Total revenue	4,543	4,129
Operating expenses	3,412	3,318
Finance costs	472	471
Total expenses	3,884	3,789
Operating surplus before gains and losses	659	340
(Deficit) / Surplus after adjustments	660	640

Comprehensive revenue and expenditure

30 June 2018

Revenue and expenditure highlights

Solid operational performance

- Rates revenue represented 38% of total revenue (40% in 2017)
- Vested assets (assets passed to group at no cost) up by \$370m
- Depreciation costs down by \$60m (driven primarily by AT)
- Increased activity (both revenues and expenses) at Port after acquisitions
- Bringing forward costs (\$13m) in preparation for America's Cup
- Increase in weathertightness provisioning of \$82m

Net effect of above and other variances is an operational surplus \$320m better than last year.

As at (NZ\$m)	30 June 2018	30 June 2017
Cash	618	337
Total assets	51,462	47,359
Total borrowings	8,832	8,300
Total liabilities	12,660	11,583
Net assets	38,802	35,776
Net borrowings to total assets	16.0%	16.8%

Financial position and cash flow

30 June 2018

For the period (NZ\$m)	30 June 2018	30 June 2017
Operating cash flow	1,101	892
Investing cash flow	(1,134)	(1,367)
Funding cash flow	312	678

Capital and debt highlights

- \$1.7 billion of CAPEX plus a \$93m contribution to the City Rail Link, net debt up \$253 million.
- Capex funded by:
 - cash surplus from operating activities of \$1.1b
 - asset sales \$409m
 - net new debt of \$253m
- Key debt ratios remain within targets
- Standard & Poor's and Moody's credit ratings remain AA and Aa2 - "stable" outlook



Funding approach and debt market activity

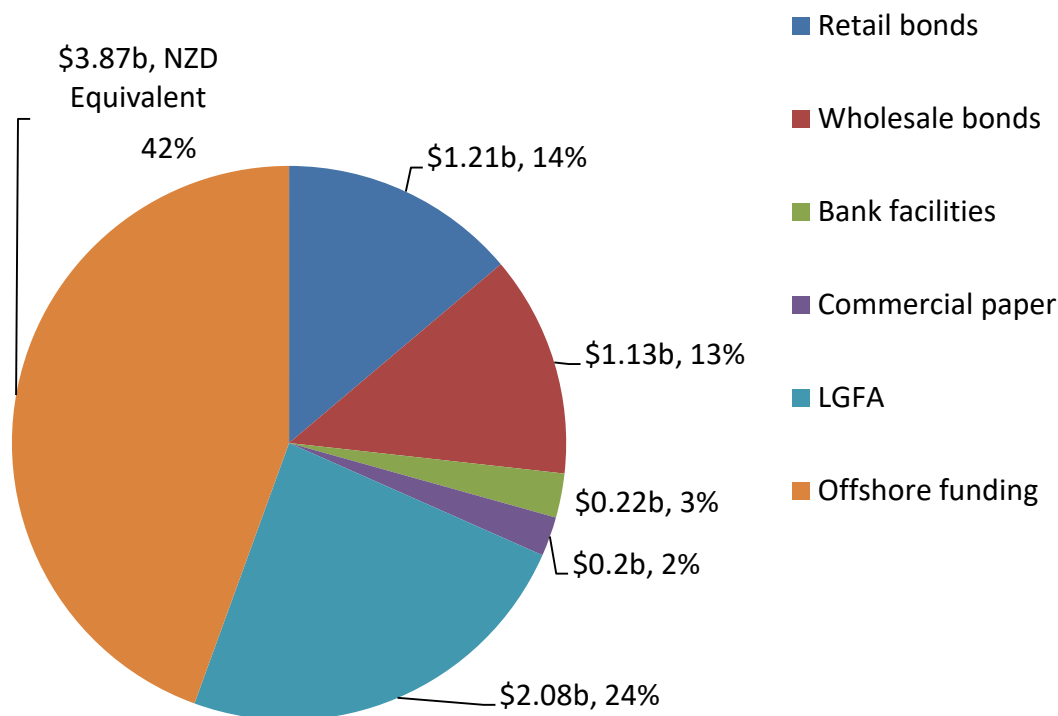
Funding approach

- Diversity important – across domestic, Local Government Funding Agency (LGFA) and offshore
- Spread of debt maturities
- Continue to develop offshore markets
- Commitment to AA / Aa2 credit rating
- Development of a Green Bond Framework with one Green bond issue

Diversity

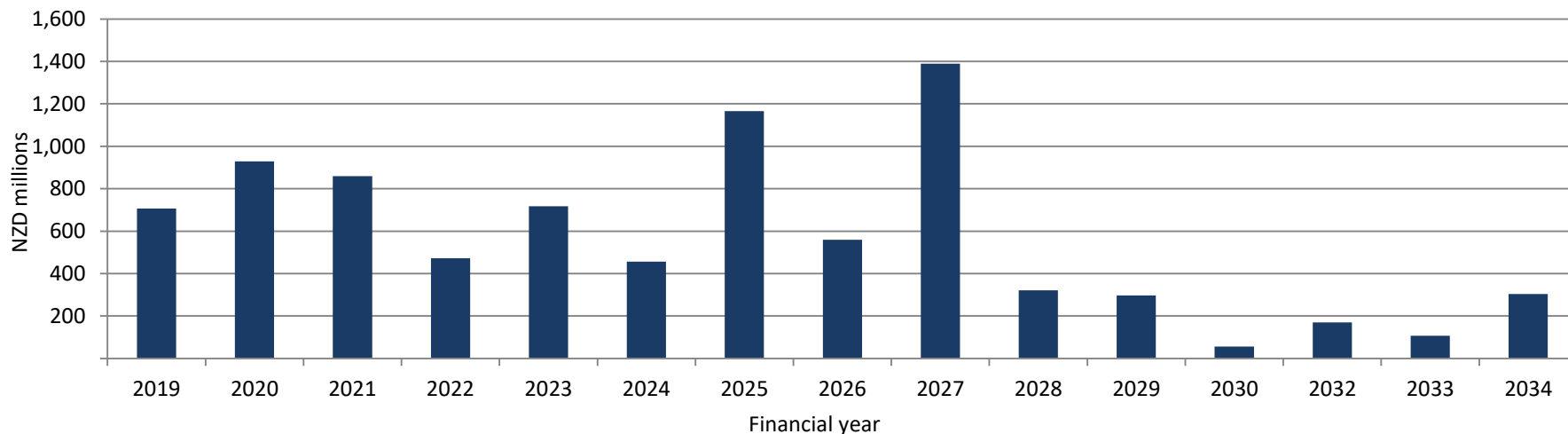
- Group debt of \$8.8 billion (58% NZD domestic and 42% offshore funding)
- 11 offshore issues
- Weighted average term of 5.8 years
- Backed by NZD1 billion standby facility
- Funding via LGFA capped at 40% of their lending (currently 24%)

Auckland Council Group funding mix – June 2018

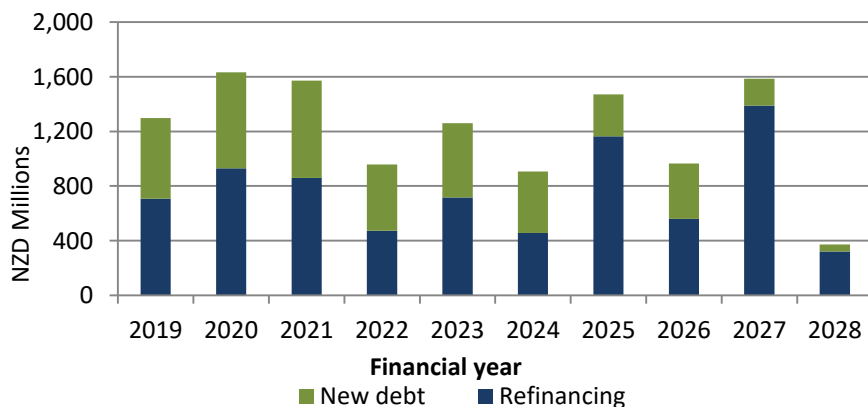


Refinancing and new debt

Group long-term debt maturity profile (as at 30 June 2018)

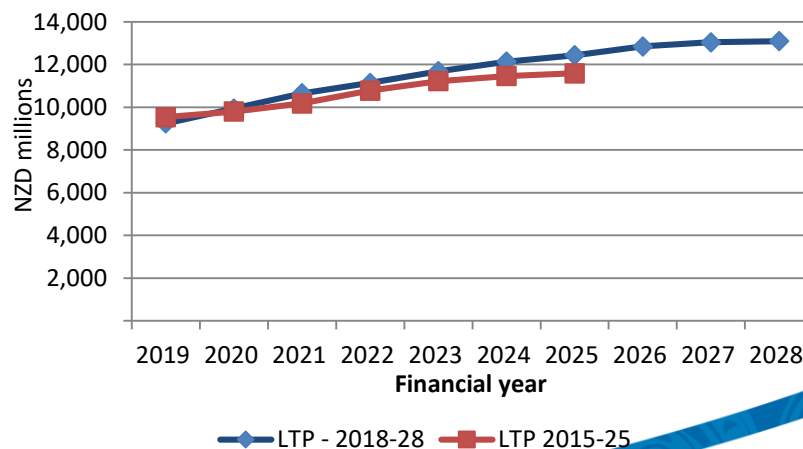


Annual forecast group borrowing



Based on LTP 2018-2028

Projected group debt (financial years)



Security and credit ratings

Security

- Lenders have benefit of Debenture Trust Deed giving a charge over rates revenue and future rates income
- Rates ranks ahead of all other claimants on property
- Ability to appoint Commissioner and to levy special rate

Credit ratings

- Standard and Poor's: AA (Stable Outlook)
- Moody's: Aa2 (Stable Outlook)
- Both ratings affirmed Sep/Oct 2018
- Rating target AA/Aa2 now part of core treasury policy

Contact details

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Questions?

Matariki ki tua
o ngā whetū