Market Announcement

29 August 2022

Auckland Council Group's results reflect resilience despite ongoing challenges

The ongoing effects of the COVID-19 pandemic and associated economic conditions have had a significant impact on the group's core operations and its ability to carry out some of its planned capital investment projects, but the results demonstrate resilience and the benefit of financial prudence by the group during the year ended 30 June 2022.

Chair of the group's Finance and Performance Committee, Cr Desley Simpson says the group's unaudited results reflect the prudent use of limited funding for the recovery of Auckland through the ongoing disruption.

"The key point we considered when preparing our Recovery Budget last year was to provide significant support to the economic recovery of Auckland. This proved to be crucial, with our ongoing capital investment programmes helping to counterbalance some of the anticipated economic pressures in Auckland, as well as supporting future infrastructure growth needs for the region. While this capital investment plan was impacted by COVID-19 related factors, having a range of levers to support our performance such as revenue increases and operational savings targets, leaves us in a reasonable position."

Although COVID-19 saw deferrals and delays of capital projects, the group invested $2.3 billion during the 2021/2022 year, only $168 million less than the prior year. While this was less than the $2.9 billion worth of work budgeted for, it included substantial progress on projects such as City Rail Link and the Central Interceptor. The group spent:

- $1,084 million on transport-related assets
- $815 million on clean water, wastewater and stormwater assets
- $384 million on other assets e.g. the zoo development, environmental restoration and park upgrades

The group's total asset base increased by $9.7 billion to $70.4 billion, principally reflecting a revaluation gain on assets of $7.9 billion and capital investment of $2.3 billion. Despite the group's significant capital investment, the increase in net borrowings was contained to $757 million, taking total borrowings to $11.1 billion. This resulted in a debt to revenue ratio of 257% which is below the group's prudential limit of 290% of group revenue.

The group spent $4.7 billion delivering services to Aucklanders. This was an increase of $320 million compared to the prior year. The areas with the largest increases were employee benefits, professional services, and depreciation.

- Employee benefits increased by $88 million mainly from annual salary increases and an increase in the number of full-time equivalent employees to support many of the group's capital programmes, targeted rates programmes, areas of growth and overtime costs which were incurred due to physical distancing requirements.
- Professional services charges for outsourced works, legal services and other consultancy charges were $73 million higher than the prior year in response to increasing consenting volumes and complexity, new environmental projects and progressing the Three Waters Reform.
- Depreciation and amortisation costs increased by $67 million as a result of the significant amount of increased capital investment and a prior year revaluation increase.

Group revenue was $5.7 billion, an increase of $361 million on the prior year, but included a $206 million increase in non-cash proceeds from vested assets compared with the prior year. This was mainly due to the receipt of the Central Post Office renovations as part of the City Rail Link Limited work.

The group's revenues also benefitted from the planned 5% average general rates increase that was approved in the Recovery Budget, and there was also a 1.8% increase in the number of ratepayers. These two factors accounted for $146 million of the overall revenue increase compared to the prior year.

Development in Auckland, particularly intensive housing development, increased related revenues by $103 million compared to the prior year including infrastructure growth charges and revenue associated with new water supply connections, consenting and licences and development contributions.

However, some revenues were affected by COVID-19, such as reduced public transport usage, parking revenues and revenue from community facilities, festivals, shows and events. There was an overall decrease of $85 million in these revenues compared to the prior year. The group also received lower subsidies from the central government, with public transport subsidies from Waka Kotahi NZ Transport Agency being $67 million less than in the prior year.

Group CFO Peter Gudsell says the group's results can only be understood fully by considering the impact of the one-off transactions and non-cash items.

"As COVID-19 continues to disrupt our day-to-day lives, we need to keep in mind the ongoing pressures this has on the council group's revenue and capital delivery. It is important we continue to be prudent with the group's finances and stay on course with what the Recovery Budget set out to achieve."

The full audited Auckland Council Group Annual Report 2021/2022 will be published at the end of September and will be available on the Auckland Council website.

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