Auckland Council

Implications of Covid-19

1 May 2020

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Financial position pre Covid-19

- Strong financial performance for 6 months to 31 Dec 2019
  - Revenue $3.494 billion (up $233 million)
  - Operating cash flows $746 million (up $39 million)
  - Capital investment $1.282 billion (up $335 million)
  - Total assets $54.692 billion (up $1,819 billion from 30 June 2019)
  - Net debt $9.214 billion (up $547 million from 30 June 2019)
  - Debt/revenue ratio 245%
- Undrawn committed bank standby and revolving credit facility (RCF) $1.3 billion
- AA/Aa2 credit rating on stable outlook (S&P Global/Moody's)

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Liquidity and borrowing

- Reserve Bank stimulus assisting capital market activity
- $850 million of new borrowings in March/April:
  - $150 million of commercial paper
  - $500 million of 1 and 2-year FRNs (wholesale private placements)
  - $200 million 2 and 9-year funding via LGFA
- Continued domestic and offshore investor interest in short and some longer-term maturities
- Standby and RCF remain undrawn
- Auckland Council borrowings through LGFA represent 24.5% of LFGA borrowings (cap 40%)
  - Approximately $2.1 billion of headroom
  - LGFA bonds included in QE
- Cash holdings as at 28 April 2020 approximately $250 million
  - intentionally holding higher cash balances over disruption

Implications of Covid-19

- Reduced revenue (public transport revenue, parking and infringement fees, non-receipt of airport dividends, regional fuel tax, unpaid or deferred rates, regulatory fees, event income and facilities revenue)
- Reduced operating expenditure (reduction in public transport services, pausing spending on non-essential services during the lockdown, reductions in temporary staff and contractors)
- Reduced capital expenditure (labour and supply chain disruptions impacting the timing of capital projects)

Short-term response

- Reduce spending on external contracts and contract staff in non-essential services
- Suspend non-essential work
- Suspend recruitment of permanent staff until further notice
- Redeploy under-utilised permanent staff into roles currently filled by contingent workers
- Rates deferral option until 31 August 2020 for those in hardship
- Cancellation of quarter 4 Accommodation Provider Targeted Rate (APTR)
- Building on strong partnership with Central Government

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Financial implications – 30 June 2020

- Revenue down $250 million
- Operating expenditure down $100 million
- Reduced capital expenditure of $150 million
- Debt around $10 billion
- Debt to revenue ratio close to 270% (compared to budget of 253%) on reduced revenue

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Medium-term implications – FY 2020/21

- Dependent on length of the disruption
- Following scenarios agreed on a group basis and the financial impacts for the next financial year were assessed under three scenarios

Adjusted status quo	A rapid return to normal, minimal change to Annual Budget 2020/2021 aside from a few already known impacts (airport dividends, cancelled events)
6 months disruption	Disruption lasts from March to September 2020 with varying alert levels
12 months disruption	Disruption lasts from March 2020 to March 2021

- Scenario's based on best information at the end of March/early April

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Medium term implications – FY 2020/21 (cont)

Potential impacts on operating budgets are estimated as follows:

	Adjusted status quo	6 months disruption	12 months disruption
Cash operating revenue	-$120M	-$450M	-$650M
Cash operating expenditure	-$30M	-$200M	-$300M
Net operating cashflow	-$90M	-$250M	-$350M

Potential impacts on capital investment are estimated as follows:

	Adjusted status quo	6 months disruption	12 months disruption
Capital delivery	-	-$300M	-$1,000M
External capital funding	-	-$200M	-$400M
Net capital funding requirement	-	-$100M	-$600M

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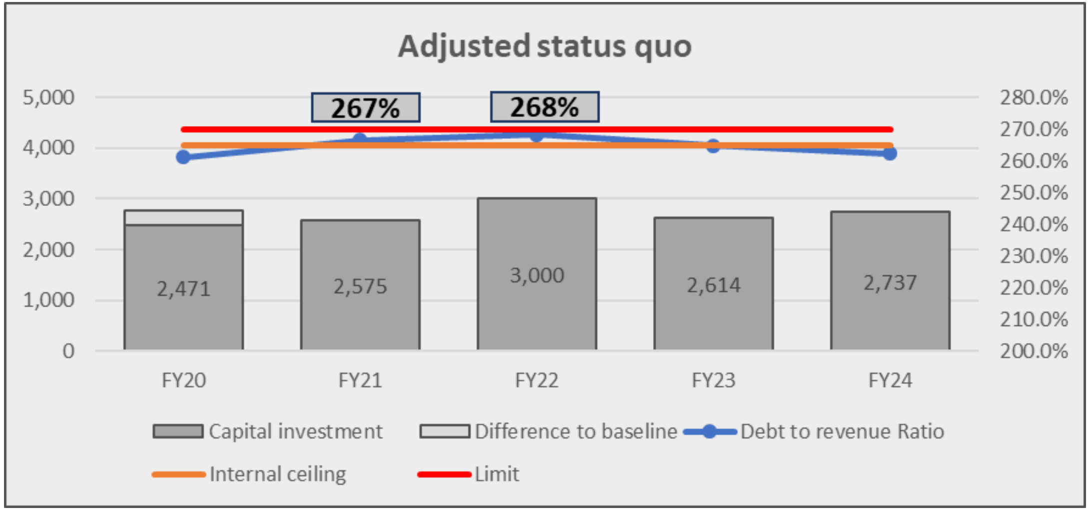
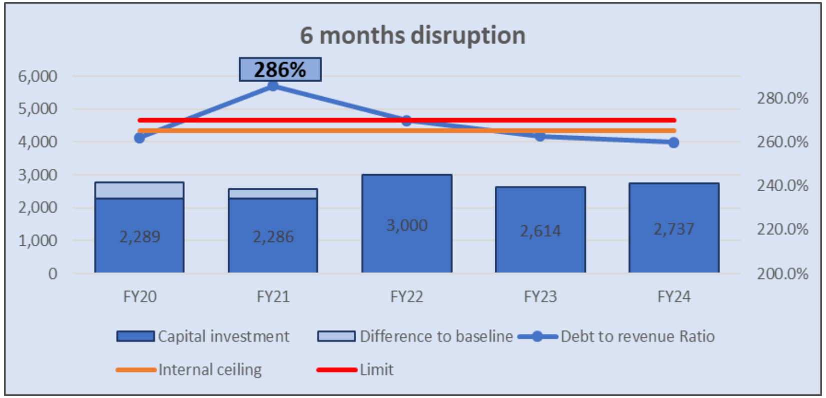
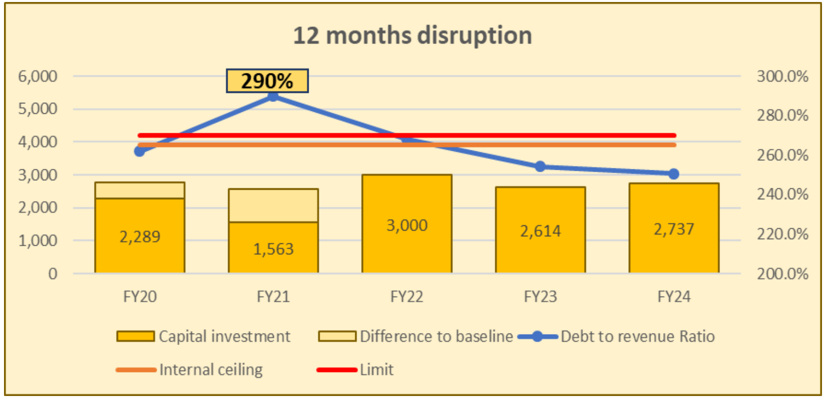
Medium term implications – FY 2020/21 (cont)

The following charts show that debt ratio impacts would be temporary, reflecting the projected temporary nature of the revenue impacts



Medium term implications – FY 2020/21 (cont)





Under these scenarios:

- unable to achieve balanced budget for 2020/21
- temporarily exceed 270% debt/revenue limit

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Annual plan – key considerations

	Short-term considerations	Long-term considerations
Affordability	• Affordable rates increase for next year • Supporting those in financial hardship	• Affordability of rates increases for future generations
Financial prudence	• Balancing next year's budget by reducing non-essential spending • Adhering to debt policy limit next year	• A sustainable approach to meeting ongoing costs from annual revenues • Ensuring debt levels remain prudent over time relative to income
Community impacts	• Continuing to deliver critical council services that our community relies on • Working with central government to promote economic recovery in Auckland	• Providing for adequate levels of investment to address the challenges of a rapidly growing region (including housing, congestion, environment and climate)

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Annual plan - approach

- Approach based on “most likely” scenario – close to 6-month disruption scenario with most up to date assumptions
- Timing likely to be delayed – adoption not until 31 July 2020
- Priority to publicly consult
- Consider rates increase of either 2.5% or 3.5% for FY2021
- Expansion of the rates postponement policy to include businesses experiencing financial hardship
- Suspension of APTR, and the expenditure that it would fund, until 31 March 2021

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Assumptions: Government decisions

Factor	More optimistic scenario	Most likely scenario	More pessimistic scenario
Alert level	Level 1 by 1 July 2020 No higher for whole year	Levels 1 and 2 for whole financial year	Surge of cases leads to revert to level 3 or 4 for two months

Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
2	2	2	1	1	1	1	1	1	1	1	1

- Aligns with Treasury's Scenario One
- Supported by economic commentary and outlooks from bank economists and KPMG

Annual plan – next steps

1. Update financials and prepare consultation materials with latest information
2. Public Consultation
3. Consideration of feedback and Decision-making
4. Adopt Annual Budget and set rates

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Credit rating agencies

- AA/Aa2 from S&P and Moody’s both on “Stable” outlook (affirmed by Moody’s on 28 April 2020)
- Regular dialog with both agencies
- Rating underpinned by solid institutional framework of local government in NZ
- Pressure on key debt to revenue ratio likely in 2020/21
- Likely relevant factors:
  - extent and term of duration
  - credibility of assumptions and response
  - temporary v permanent differences
  - other initiatives being pursued

Questions?

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