

11 November 2020

10-year budget

Background

Every three years, Auckland Council (council) is required to prepare an audited 10-year financial plan known as a Long-term Plan or 10-year budget.

The council has commenced work on its 10-year budget for 2021-2031. This 10-year budget will be different because of the impacts on the council of the COVID-19 situation and the associated implications for the Auckland economy.

In particular, this includes revenue reductions for Ports of Auckland, public transport, regulatory revenue, revenue from conventions and stadiums and dividends from Auckland International Airport. This has been exacerbated by the current drought situation and associated water restrictions as well as some reductions in revenue from commercial contracts across the council group.

Potential outlook and budgetary response

The severity, duration and longer-term implications of the disruption remain highly uncertain and therefore the financial implications for the council are also highly uncertain. While the council had a strong financial and liquidity position going into the COVID-19 situation, the revenue reductions present challenges for the council's core financial strategy parameters.

In July 2020, the council adopted an Emergency Budget for 2020/2021 with a projected reduction in cash operating revenue for the group of around \$450 million. At that stage, revenue was projected to recover to close to pre-COVID-19 levels by the following financial year.

The council's monthly and quarterly results show that actual revenue is tracking well against those lower revenue projections for 2020/2021 included in the Emergency Budget.

However, the latest projections are that the COVID-19 and other impacts on the council's revenue will persist for longer than previously anticipated. While the outlook remains uncertain, the indicative magnitude of these impacts on the likely reductions in the council's cash operating revenue relative to pre-COVID-19 budget projections are as follows:

Financial year	Cash revenue impact
2021/2022	\$260m
2022/2023	\$170m
2023/2024	\$110m

If nothing else changed, this would put added pressure on the council's debt to revenue ratio which is already temporarily elevated above the council's normal policy limits. However, the council remains strongly committed to long-term financial prudence and the preparation of a new 10-year budget provides a timely opportunity for the council to review its investment levels and the key parameters of its financial strategy.

Media release



In doing so, the council will consider:

- levels of operating and capital expenditure, and the pace of key capital investment projects and programmes
- the price path for rates (property taxes), water charges and other fees and user charges
- targets for the disposal, lease or concessionary arrangement for non-strategic property assets
- anticipated funding support from central government and other external parties
- prudent and sustainable levels of debt to fund investment in Auckland.

Credit rating

Council currently has credit ratings of AA/Aa2 from S&P Global and Moody's respectively, both on stable outlook.

The council will continue to hold discussions with the rating agencies regarding its proposals for managing the financial impacts of the COVID-19 situation and its forward investment plans for 2021-2031.

Next steps

The council's Governing Body will be asked to decide on key items for public consultation on its 10-year budget on 9 December 2020. This will be preceded by a Mayoral Proposal on these matters. Following consideration of public feedback early next year, the Governing Body will make decisions and adopt its final 10-year budget 2021-2031 by 30 June 2021.

End

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