Market Announcement

15 March 2023

Financial update - City Rail Link and storm impacts

Auckland Council, as one of the joint sponsors of the City Rail Link (CRL) project, has received a formal funding request from City Rail Link Limited based on revised estimates of the costs and time required to complete the project. This request comes at the same time the council begins to more fully understand the financial challenges caused by the recent weather events.

Despite these significant challenges, the council has the necessary debt headroom to cover the increased capital requirements and has the ability to consider the specific mix of funding levers through its 10-year Budget 2024-2034.

City Rail Link

The CRL request seeks an additional $1.074 billion of funding for the project from the two sponsors. This reflects a $1.074 billion increase to the previously estimated total project cost of $4.419 billion, which was approved by the sponsors in May 2019, to a new total of $5.493 billion.

In addition to the cost increase, the sponsors have also been informed that construction of the stations and supporting rail infrastructure is now likely to be completed by the Link Alliance in November 2025. Once practical completion has been reached, KiwiRail and Auckland Transport will then carry out the additional work required to open the CRL to its first passengers.

The cost increase and delay have been primarily driven by the COVID-19 pandemic and associated lockdowns, which has resulted in staffing, supply chain and technical-related challenges associated with a project of this scale and complexity, and inflation in construction costs.

The council's Governing Body will consider its share of the formal funding request and discuss the budget implications of the increased cost and project delay when it meets on 23 March 2023.

Flooding and cyclone events

The council group is continuing to assess the impacts of the recent flooding and cyclone events on its services and infrastructure. The associated costs remain highly uncertain, and it will take some time until the full extent of the damage and the detailed financial impacts can be determined.

Initial estimates, however, suggest that the cost of the council's operational response to these events and returning assets to their previous service levels could cost between $900 million and $1.2 billion.

These estimates include some short-term impacts on revenue, operational costs such as immediate cleaning, maintenance and repairs, as well as capital costs to renew damaged assets.

The capital costs form the largest part of these estimates and are based on a like-for-like replacement or reinstatement of damaged assets. It does not include any provision for enhanced infrastructure resilience or acquisition of private properties impacted by these events.

The costs in the current financial year will largely be addressed through reductions in other expenditure, insurance recoveries, and some increase in debt compared to current forecasts.

Balancing the budget

The storm and cyclone impacts will make the task of balancing the council's Annual Budget 2023/2024 even harder. The council is currently consulting on this budget and has proposed to reprioritise capital expenditure and provide additional operating costs in response to these events.

Capacity constraints in the construction market mean that it is unlikely that the capital investment for the council group will materially increase from the $2.8 billion currently planned for 2023/2024. However, storm-related asset renewals will likely delay other high-priority investment forward into the following year.

Therefore, it is likely the bulk of the need for additional capital investment and funding will occur from the 2024/2025 financial year onwards.

Financial and funding impacts

The council has the necessary debt headroom to cover the increased capital requirement from these two challenges and can consider the specific mix of funding levers through its 10-year Budget 2024-2034.

The council's financial strategy has set a limit for debt not to exceed 290 per cent of operating revenues. The proposed Annual Budget 2023/2024 indicates, after taking into account the debt reduction from the sale of airport shares, that the ratio out to 2030/2031 will track below 220 per cent.

Preliminary financial modelling has indicated that debt/revenue would remain within limits even without the proposed airport share sales, any reprioritisation of other capital spending or other mitigations. However, solely relying on debt would create significant challenges for the council's operating position from the 2024/2025 financial year.

Tough choices will be required in the 10-year budget to resolve this medium-term budget challenge. Funding options available to the council include:

- Reducing or deferring other capital spending
- Further sale of assets
- Further service reductions

- Considering the level of future rates increases
- Working with the Crown on potential changes to funding arrangements, including new revenue tools and the possible use of future better-off funding as part of the Three Waters reform programme.

The council remains strongly committed to maintaining a prudent and sustainable approach to long-term financial management.

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

ENDS

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