Market Announcement

29 August 2023

Auckland Council Group shows strong recovery from COVID-19 despite challenges

The Auckland Council Group's (the group) performance for the 2022/2023 year reflects resilience in the face of new challenges in the second half of the financial year, after earlier positive signs of recovery in revenues from the effects of the COVID-19 pandemic.

Use of the group's services and facilities steadily increased due to COVID recovery, and this was reflected in the increase in revenues. But the group faced higher-than-expected inflation and interest rate increases and this impact was exacerbated by the severe weather events in Auckland in early 2023, which added unforeseen costs to clean up the region and repair or write-down damaged assets.

These weather events have required the group to redirect resources and funding to support the community. Storm response and recovery costs were largely funded by reductions in other expenditure, insurance recoveries and Central Government assistance. To help mitigate the impacts from the economy and weather events, the group implemented tight spending controls, particularly on discretionary spending such as restricting the filling of staff vacancies, deferring non-essential projects and planned maintenance.

Ongoing recovery and resilience costs for the region are estimated to be as high as $4 billion and the funding for this remains uncertain. Discussions are continuing with Central Government about their ongoing support.

Deputy Mayor Desley Simpson says that the group's results show the council's focus on supporting the community as it returns to a new normal.

"As we all recover from the difficulties presented by COVID-19, we face a challenging economy with inflation that is putting pressure on households, businesses and the council. We are also seeing severe impacts from a changing climate. The January and February weather events had a severe impact on our communities. Looking ahead we need to ensure that we continue to maintain financial flexibility to adapt to our changing world and build in resilience to economic shocks. Our 2023/2024 annual budget sets us up to support this flexibility and looking ahead we are optimistic that we can continue to be prudent with our financial management, achieve the outcomes we have planned, and look after all our communities as we face the future together."

Group Chief Financial Officer Peter Gudsell says the group's unaudited results reflect a fantastic recovery from the problems caused by COVID-19. Despite the economic challenges, combined with the costs and disruption from recent weather events and prudent financial management, the group navigated its way to a $400 million increase in operating surplus compared to the prior year.

The group also made good use of the government's Affordable Waters Better-off funding, which was $98 million for the year. The group also benefitted from government assistance following the weather events, with Waka Kotahi NZ Transport Agency (Waka Kotahi) increasing its funding assistance rate for roading repairs, providing funding of $28 million. Discretionary spend was kept as low as possible, resulting in the group achieving savings of $105 million. The capital programme was re-calibrated to ensure that critical and high-risk projects were given priority.

The group's capital investment of $2.7 billion for the year included:

- $1,301 million on transport-related assets, including progressing the City Rail Link, roading renewals and progressing the Eastern Busway.
- $918 million on clean water, wastewater and stormwater assets, including progressing the Central Interceptor project, expanding the Redoubt Road reservoir putting flood prevention and water quality improvements in place at the Opanuku and Lower Waitaro Streams.
- $488 million on other assets, such as upgrades to playground and sports facilities, environmental initiatives and renewals of cultural venues; for example, developing Te Kori Scott Point - a sustainable sports park, and acquiring a reserve in Kahui Parade, Drury.

The group's total asset base increased by $2.6 billion to $73 billion. The group's capital investment was funded through capital subsidies from Central Government and its agencies, other capital revenue sources and debt. To this end, net debt increased by $1.2 billion to $12.4 billion, resulting in a debt to revenue ratio of 253% which is below the group's prudential limit of 290%.

Delivering services and providing support to Aucklanders cost the group $5.3 billion. This was an increase of $599 million compared to the prior year. The areas with the largest increases were depreciation, costs of goods and services, and employee benefits.

- Depreciation and amortisation costs increased by $195 million, which reflects the significant amount of capital investment over recent years and the $8 billion upward revaluation of the group's assets in the prior year.
- Cost of goods and services increased by $135 million, mainly due to the increased cost of public transport from increasing passenger numbers and frequency of services.
- Employee benefits increased by $70 million due to annual salary increases, the effects of the tight labour market and the cost of temporary labour to cover critical vacancies.

The Auckland Anniversary storm and Cyclone Gabrielle caused a significant amount of damage to the group's assets, with a total of $39 million in write-downs.

Group revenue was $6.7 billion, an increase of $997 million on the prior year.

- The biggest part of this increase came from grants and subsidies which increased $383 million to $1.2 billion. This includes contributions from Central Government and its agencies mainly from Affordable Waters Better-off funding and public transport subsidies.
- Fees and user charges increased across the group which is a positive reflection of the region's recovery from COVID-19. This was seen in higher revenues for Ports, water and wastewater, greater usage of facilities and attendance at events, and higher public transport patronage.
- The group's rates revenues increased by the planned 3.5% average general rates increase, a climate action targeted rate of $54 million and a 1.8% increase in the number of ratepayers, resulting in rates revenue of $2.3 billion.
- Also included in revenue is donation of artworks worth $178 million from philanthropists Julian and Josie Robertson following the death of Mr Robertson.

The full audited Auckland Council Group Annual Report 2022/2023 will be published at the end of September and will be available on the Auckland Council website.

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For further information please contact:
Drew Broadley
Principal Advisor Media Relations
Mobile: +64 27 260 8216
Email: drew.broadley@aucklandcouncil.govt.nz