Media release

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Pressure on Operating Budgets

Background

Auckland Council (Council) is experiencing ongoing revenue impacts from the COVID-19 pandemic and a structural increase in its cost base from rising inflation and interest rates, supply chain constraints and a tight labour market.

This includes a slower than expected recovery in revenue from public transport, events and facilities, and a slower recovery of dividends from Auckland International Airport. On the cost side, payments to staff and suppliers, finance costs and depreciation expense are all increasing faster than anticipated.

Council has previously announced it plans to keep the general rates increase at 3.5 per cent for the 2022/2023 financial year. These factors are creating considerable pressure on the net operating position for the group from that financial year onwards.

Potential outlook and budgetary response

The long-term impact of future COVID-19 variants and external economic trends on the Council's finances remain highly uncertain. While the Council had a strong financial and liquidity position going into the COVID-19 situation, the adverse revenue and expenditure trends now present challenges for balancing the Council's operating budget on an ongoing basis.

The Council's Finance and Performance Committee has today begun the process of reviewing updated financial projections across the Council group and considering a range of potential budget mitigations as part of its work to finalise the Council's Annual Budget 2022/2023.

The Council is strongly committed to maintaining a prudent and sustainable approach to long-term financial management. This includes the Council's commitment to its policy of moving to fully fund depreciation expense from rates and current revenue by 2028.

The potential mitigations that will be considered as part of the budget process include:

- medium to long-term deferral of some non-critical capital expenditure projects which are not yet subject to contractual commitments
- permanent operating expenditure reductions from stopping, reducing, or scaling back some discretionary services, or by finding new ways to deliver those services. These service changes would be phased in over a two-to-three-year period
- considering the future path of general rates increases from the 2023/2024 year onwards, noting that this would be a decision for the next council
- fully utilising $127 million of central government Better Off Funding (associated with its Three Waters Reform programme) to fund operating expenditure in the short-term
- some temporary and modest use of borrowings to fund part of the operational budget in the short-term while longer-term changes are being phased in, staying well within current prudential debt limits.

While there are challenges in terms of operating budgets, the Council's projected debt to revenue ratio remains well within prudential limits. This means there is sufficient debt headroom to respond to future financial shocks.

Credit rating

Council currently has credit ratings of AA/Aa2 from S&P Global and Moody's respectively, both on stable outlook. The S&P Global rating was last affirmed in October 2021 and the Moody's rating was affirmed in April 2022.

Next steps

The council's Finance and Performance Committee will work through the available budget mitigation options over April and May and make decisions about these on 7 June. The Governing Body will adopt a final budget for 2022/2023 setting out the details of these mitigations by 30 June 2022.

End

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