

17 April 2020

COVID-19 Update

Background

Auckland Council (Council) is experiencing the unprecedented impacts of the COVID 19 crisis. In particular these have to date included:

- a reduction in revenue, including public transport, regulatory revenue, fuel tax receipts, revenue from events and community facilities and dividends from Auckland International Airport.
- a reduction in operating expenditure resulting from a reduction in public transport services, a reduction in temporary staff and contractors and by eliminating non-essential spending during the lock-down. This reduction is being partially offset by some increased expenditure to support the public health response.
- slower delivery of capital expenditure due to the impact of the disruption,

in each case in the current financial year to 30 June 2020 (FY2020) as compared with the current annual budget for FY2020. These effects are also expected to impact at least the financial year ending 30 June 2021 (FY2021) and possibly beyond.

Response so far

In response to the crisis Council has established an Emergency Committee comprising the Mayor and all councillors to assume the functions and powers of all Council committees except for the Audit and Risk Committee which continues to operate to fulfil its responsibilities.

As part of plans to cautiously and prudently manage the financial impact, Council has already taken steps to:

- reduce spending on external contracts and contract staff in non-essential services
- suspend non-essential work such as non-essential asset maintenance, fleet servicing, and internal business improvement projects
- suspend recruitment of permanent staff until further notice
- redeploy under-utilised permanent staff into roles currently filled by contingent workers.

The council will announce further responses shortly to help manage these financial impacts.

Current position and potential outlook

Council's finance division has undertaken an analysis to understand the financial implications of the COVID 19 crisis and to inform the Emergency Committee of the decisions and trade-offs that may be needed because of the disruption. However, the

severity, duration and longer-term implications of the disruption remain highly uncertain and therefore the financial implications for Council are also highly uncertain.

The strong financial and liquidity position of Council going into the COVID-19 situation mean that the impacts of this situation should be manageable for the remainder of FY2020.

However, ongoing disruption into FY2021 will present challenges for Council's core financial strategy parameters in the near-term. Specifically, it would be unlikely that we can achieve a balanced budget and compliance with Council's 270% debt to revenue ratio policy limit in FY2021 without substantial cuts to Council's services and capital expenditure (over and above the spending reductions and delays to expenditure caused by the disruption itself).

Financial scenario modelling considered by the Emergency Committee yesterday suggested that if a high degree of disruption persists over a six month period (March 2020 to September 2020) before beginning to return to normal, and the council decides to maintain average general rates of 3.5% per annum and not make substantial cuts to services and capital expenditure then the impacts to current budgets for FY2021 might be:

- a reduction in cash operating revenue for the group of around \$450 million
- a reduction in net operating cashflow of around \$250 million, as operating expenditure would also reduce due to lower activity levels from disruption
- a reduction in capital delivery in the period of around \$300 million due to delays caused by disruption
- a debt to revenue ratio of between 280% and 290% as at 30 June 2021.

A range of other scenarios with more severe disruption and for longer duration were also considered. While the magnitude of the reductions in revenue, operating and capital expenditure all increased with more disruption, in all scenarios considered the projected debt to revenue ratio remained below 300% in FY2021 and returned to be within the 270% policy limit by the following financial year.

Further details about this scenario modelling exercise (based on the best available information in late March/early April) will be available on the council's website.

Council decisions

Yesterday the Emergency Committee considered staff advice on the potential financial implications of the COVID-19 situation and the committee agreed to undertake public consultation on changes to its Annual Budget 2020/2021, including some proposals for rating policy.

Staff advised the committee that the key trade-offs to be made in response to this situation would involve balancing the cost imposed on ratepayers now and in the future against the need to continue to deliver critical Council services and capital investments to support economic recovery, while at the same time maintaining Council's sound financial position.

The committee was clear that the budget consultation would not include any 'business as usual' scenarios, reflecting the reality of the COVID-19 crisis and the impact this will have on council finances. To support public consultation, staff were requested by the committee to progress work on developing a proposed Emergency Budget for FY2021 on the basis of:

- a "most likely scenario" approach to budgeting with disclosure of the consequences for the council's financial position if disruption is either more severe or less severe than assumed

- maintaining essential services and critical council activities, with advice provided to councillors on options for reducing spending on discretionary activities.
- maintaining levels of capital investment to support economic activity, even if that means temporarily exceeding debt policy limits.
- maintaining a strong commitment to long-term financial prudence and sustainability, but not necessarily running a balanced budget in FY2021.

To arrive at a “most likely scenario” for the Annual Budget, council staff will assess the latest emerging information from central government, the local government sector, economic forecasters and international experience. Staff will also continue to engage with government officials on opportunities to work in partnership with central government to progress capital investment for Auckland in a way that is not limited by the council’s debt constraints.

It was agreed by the committee that as part of the public consultation, Aucklanders will be asked if they support options including:

- an average general rates increase of either 2.5% or 3.5% for FY2021
- an expansion of the council’s rates postponement policy to include businesses experiencing financial hardship
- suspension of the council’s Accommodation Provider Targeted Rate (APTR), and the expenditure that it would fund, until 31 March 2021.

The Emergency Committee also requested staff to undertake further analysis of the impact different rates increases between 0% and 3.5% would have on council services and business activity in Auckland. This analysis will help inform the public consultation process.

In addition, the committee also agreed to a suite of other more immediate measures in the current financial year to assist all ratepayers, including businesses, facing hardship due to the crisis. This includes waiving the APTR payment from 1 April to 30 June 2020 for all accommodation businesses and offering all ratepayers experiencing financial hardship the opportunity to defer payment of their fourth quarter rates instalments.

Credit rating

Council currently has credit ratings of AA/Aa2 from S&P Global and Moody’s respectively, both on stable outlook. Given the financial impact of the COVID 19 crisis, Council will hold discussions with the rating agencies regarding its proposals for managing the financial impacts of the crisis. At a time of uncertainty in global financial markets, Council will do everything it can to maintain a prudent and sustainable approach to long-term financial management and ensure that the COVID-19 situation does not materially impact its long-term financial outlook.

Next steps

Staff will now develop budget proposals and undertake the additional analysis requested to enable the council’s Governing Body to adopt material for public consultation. Following consideration of public feedback, the Governing Body will make decisions, adopt a final budget and set rates for FY2021 by 31 July 2020.

Council will schedule an investor update within the next two weeks to further inform investors.

End

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