

7 July 2020

Watercare Capital Expenditure Update

Auckland Council (Council) is experiencing the unprecedented impacts of the COVID-19 crisis and the flow-on impacts on economic activity. This has been exacerbated by the current drought situation.

Council is working to ensure it can maintain a prudent and sustainable approach to long-term financial management. Council currently has credit ratings of AA/Aa2 from S&P Global and Moody's respectively, both on stable outlook.

On 29 May 2020, Council commenced public consultation on a draft Emergency Budget 2020/2021 which included options for average general rates increase, proposed reductions in operating and capital expenditure for 2020/2021, proposals to release capital tied up in non-strategic property assets and a temporarily elevated debt to revenue ratio for one year.

The draft Emergency Budget signalled that \$50 million to \$180 million of additional capital expenditure may be required in 2020/2021 to augment Auckland's supply of drinking water in response to the drought situation.

About the drought:

Since the start of this calendar year, the Auckland region has received significantly less rainfall than normal. On 15th April 2020, the total volume of water stored in Auckland's water supply dams dropped below 50 per cent for the first time in more than 25 years. Recent rainfall has seen total storage edge up above 55 per cent, well below where it should be at 79.8% for this time of year.

If the drought continues and Auckland's water storage does not build adequately over summer, then more severe water restrictions may be required which are estimated to potentially impact on a substantial number of jobs in Auckland.

Drought response:

Council and Watercare are working together to understand and mitigate the challenges faced by Auckland as a result of the current drought situation. This has included working constructively with external parties in the Waikato region to access more water from the Waikato river.

Watercare have now proposed that additional operating and capital expenditure will be required in 2020/2021 to accelerate plans to increase water supply capacity from the Waikato river and bring alternative water supply sources back into service.

The amount and impact of this additional cost on the Auckland Council group's overall financial position will depend on final analysis and decisions around this expenditure and any mitigations such as pricing, asset disposal and reductions or deferrals for other expenditure.

Council staff will develop and present a further emergency budget financial update, advice, scenarios and options to councillors to support the final decisions required for the Emergency Budget 2020/2021 which will be made on 16 July 2020.

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