

Financial Position and Annual Budget 2020/2021 Update

Emergency Committee 16 April 2020

Ross Tucker

Introduction

- Scenario modelling of financial impact of COVID-19 disruption undertaken across council group
- Process and risks considered by Audit and Risk Committee on 14 April
- Decisions sought today:
 - Direction for Annual Budget 2020/2021
 - Options for rates relief

Key considerations

	Short-term considerations	Long-term considerations
Affordability	<ul style="list-style-type: none">• Affordable rates increase for next year• Supporting those in financial hardship	<ul style="list-style-type: none">• Affordability of rates increases for future generations
Financial prudence	<ul style="list-style-type: none">• Balancing next year's budget by reducing non-essential spending• Adhering to debt policy limit next year	<ul style="list-style-type: none">• A sustainable approach to meeting ongoing costs from annual revenues• Ensuring debt levels remain prudent over time relative to income
Community impacts	<ul style="list-style-type: none">• Continuing to deliver critical council services that our community relies on• Working with central government to promote economic recovery in Auckland	<ul style="list-style-type: none">• Providing for adequate levels of investment to address the challenges of a rapidly growing region (including housing, congestion, environment and climate)

Annual Budget 2020/2021

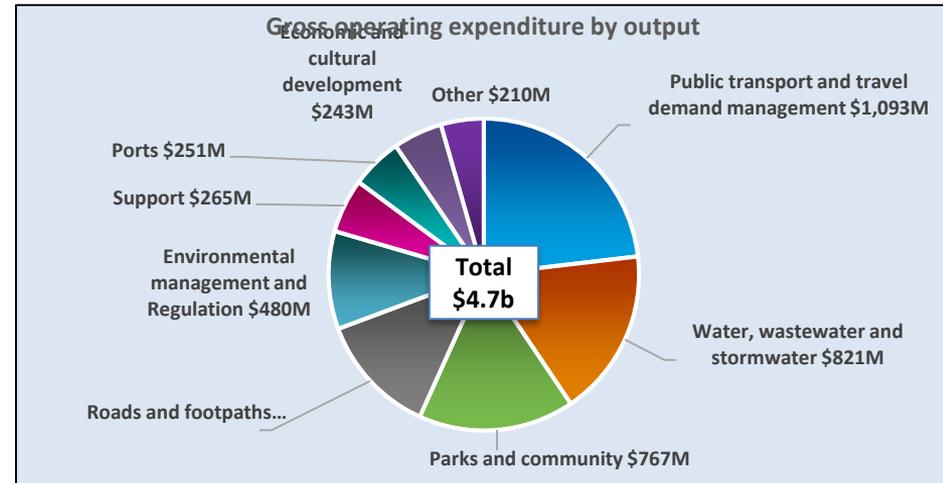
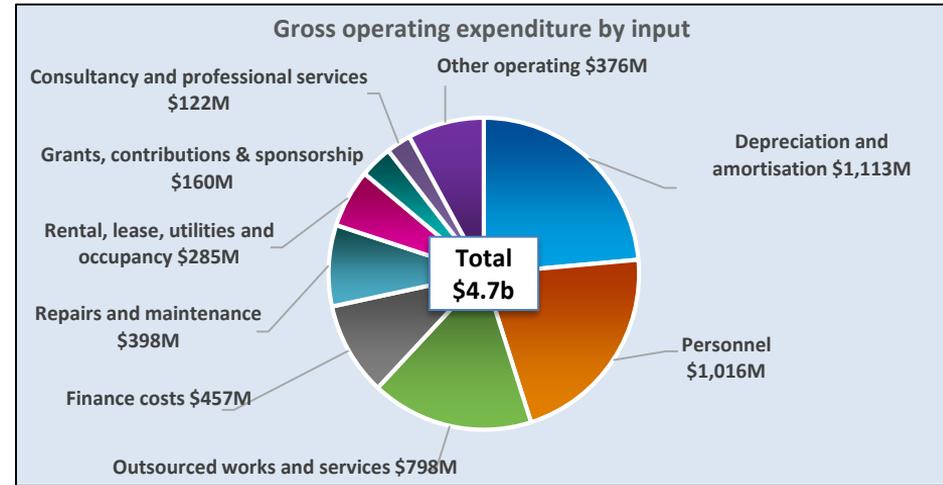
- Principle-based approach
 - i. Public consultation given priority over statutory deadlines
 - ii. “Most likely scenario” approach
 - iii. Maintain essential services and critical activities – options for reducing discretionary activities
 - iv. Consideration of impact on local activities and Māori outcomes
 - v. Maintain levels of capital investment
 - vi. Commitment to long-term financial prudence and sustainability

Applying the principles

- Assumed a high level of disruption lasting to end of September 2020
- Maintain 3.5% average general rates increase, apply relief on targeted basis
- Estimated \$450 million reduction in cash revenue (\$250 million net of costs)
- Group capital investment programme around \$2.3 billion
- Unbalanced budget and departure from depreciation funding policy for one year
 - Otherwise need to reduce opex by \$250 million
- Debt to revenue ratio temporarily above 270% policy limit
 - Otherwise need to reduce capital investment to \$1 billion

Operating spend

- Any reduction in operating spend will reduce cash borrowing requirement
- Need to consider essential services and core activities
- Reductions need to be over and above \$62 million of efficiency savings
- Value for Money programme will continue



General rates increase

- Current plan includes 3.5% increases needed to support \$26 billion 10-year capital investment plan for Auckland, funded in a prudent & sustainable way
- Without this increase for 2020/2021:
 - Average household would save about \$90 a year, or \$1.80 per week
 - \$59m less revenue – offsetting this with opex cuts would mean material reductions in service levels
 - Over \$200m less debt capacity – reduction in capital investment capacity even bigger when NZTA subsidies etc are factored in
 - Risk of credit rating downgrade – higher borrowing costs and reduced access to debt markets

Rates relief

Accommodation Provider Targeted Rate (APTR)

- ATEED proposal to suspend the APTR and the spending it funds for one year
 - Remit 25% of the rate for the 2019/2020 year (i.e. the May instalment)
 - Consult on much reduced expenditure on visitor attraction and major events for 2020/2021 year
 - Set rate for 2020/2021 at 25% of normal amount and have this due in last instalment (May 2021)

Rates relief

May 2019 rates instalment

- Current policies offer payment plans to those suffering financial hardship
- Propose extending this to those that can demonstrate financial stress from COVID-19 (e.g. businesses in receipt of wage subsidy or residents who have lost their jobs)
- Allow deferral of instalment to 31 August 2020 with no penalty

Rates relief

Rates postponement

- Propose consultation on a change to our existing postponement policy
- Consider:
 - timeframe of extension
 - extension to business ratepayers
 - targeting our offering

Next steps

Update financials and prepare consultation materials with latest information

Public Consultation

Consideration of feedback and decision-making

Adopt Annual Budget and set rates