

I hereby give notice that a confidential meeting of the Emergency Committee will be held on:

**Date:** Thursday, 16 April 2020  
**Time:** 10.00am  
**Meeting Room:** These meetings will be held remotely  
**Venue:**

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## **Te Kāhui Ngārahu / Emergency Committee**

### **CONFIDENTIAL ADDENDUM AGENDA**

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## CONFIDENTIAL: Financial position and Annual Budget 2020/2021 Update

File No.: CP2020/04375

Item C1

### Matatapuanga Confidentiality

<b>Reason:</b>	The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.
<b>Interests:</b>	<p>s7(2)(h) - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities.</p> <p>s7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).</p> <p>In particular, the report contains information around potential financial implications and emerging financial risks of COVID-19 in a highly uncertain environment. The release of this information could prejudice the position of the council and CCOs in sensitive commercial arrangements and negotiations</p>
<b>Grounds:</b>	<p>s48(1)(a)</p> <p>The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.</p>

### Te take mō te pūrongo Purpose of the report

1. To provide an update on work to assess the potential financial implications of COVID-19 on the council's financial position and how this will inform the preparation of Annual Budget 2020/2021.

### Whakarāpopototanga matua Executive summary

**This report would normally go before the Finance and Performance Committee, however, in light of COVID-19, it must now be considered by the Emergency Committee.**

2. The council's finance team have undertaken some financial scenario modelling across the council group to understand the potential implications of COVID-19 and to inform elected members of the possible decisions and trade-offs that they may need to make because of the disruption.
3. The immediate key financial decisions the council needs to make relate to the process for preparing and adopting the Annual Budget 2020/2021 and any adjustments to rates.
4. The key trade-offs to be made in response to this situation involve balancing the cost imposed on ratepayers now and in the future against the need to continue to deliver critical council services and investments to support economic recovery, while at the same time maintaining the council group's sound financial position.

5. The results of the scenario modelling suggest that the strong financial and liquidity position of the council going into the COVID-19 situation mean that the impacts of this situation should be manageable for the remainder of the current financial year. However, ongoing disruption into next financial year would present some challenges for the council's core financial strategy parameters. Specifically, it would probably not be possible to achieve a balanced budget and compliance with the 270% debt to revenue ratio policy limit in 2020/2021 without radical cuts to council's services and investments (over and above the spending reductions or delays caused by the disruption itself).
6. Staff recommend that the council agrees to undertake further consultation on budget changes as a result of COVID-19 disruption which seek to maintain critical council services and investments, retain commitment to key long-term financial strategy settings but which temporarily depart from some financial policy settings for a period of one year.
7. Staff also recommend that the council progresses rates relief options for those most in need, following public consultation where appropriate. This includes temporarily suspending the Accommodation Provider Targeted Rate, deferring payment of the fourth quarter rates instalment for ratepayers in financial distress, and extending the rates postponement scheme to businesses from 2020/2021.

## Ngā tūtohunga Recommendation/s

That the Emergency Committee:

- a) note that the COVID-19 situation presents significant risks to the financial position of the Auckland Council group.
- b) note that the severity, duration and longer-term implications of disruption from the COVID-19 situation remain highly uncertain and therefore the financial implications for the council group are also highly uncertain.
- c) agree that the following principles be used for finalising the Annual Budget 2020/2021 for adoption by the Governing Body:
  - i) giving priority to enabling adequate public consultation over meeting statutory deadlines.
  - ii) taking a "most likely scenario" approach to budgeting and disclosing the consequences for the council's financial position if disruption is either more severe or less severe than assumed in the budget.
  - iii) giving priority to maintaining essential services and critical council activities, with advice provided on options for reducing spending on discretionary activities.
  - iv) giving consideration to the potential impact of disruption and budget decisions on local activities and Māori outcomes.
  - v) maintaining levels of capital investment to support economic activity, even if that means temporarily exceeding debt policy limits.
  - vi) maintaining a strong commitment to long-term financial prudence and sustainability, noting that if it is considered financially prudent to do so, the council may resolve not to balance its budget (as defined in section 100 of the Local Government Act 2002) in 2020/2021.
- d) agree to undertake further public consultation on significant or material budget and rating policy changes for the Annual Budget 2020/2021.

- e) agree that further public consultation on the Annual Budget include:
  - i) a proposal that would have the effect of suspending the Accommodation Provider Targeted Rate and the expenditure that it would fund for the first three quarters of the 2020/2021 rating year.
  - ii) extending the council's rates postponement policy to include businesses experiencing financial hardship.
- f) agree that staff use existing rating policies to:
  - i) remit the fourth quarter instalment of the Accommodation Provider Targeted Rate for the current rating year.
  - ii) allow business and residential ratepayer experiencing financial hardship to defer payment of their fourth quarter rates instalment for the current rating year until the due date of the first rates instalment for the next rating year (31 August 2020) without penalties provided they enter into a payment plan with council.
- g) request staff report back with a Consultation and Engagement plan and prepare draft consultation materials for adoption by the Governing Body.
- h) note that staff will discuss scenarios with credit rating agencies with a debt to revenue ratio higher than 270 per cent for one year.
- i) note that staff are engaging with central government officials on statutory compliance matters and opportunities to work in partnership with central government to progress capital investment in a way that is not limited by the council's debt constraints.

#### Restatement

- j) confirm that there be no restatement of the confidential report or the resolutions at this time.

## Horopaki Context

- 8. The council's finance team have undertaken financial scenario modelling across the council group to understand the potential implications of COVID-19 and to inform elected members of the possible decisions and trade-offs that they may need to make because of the disruption. The results of this analysis are set out in Attachment A.
- 9. The immediate key financial decisions the council needs to make relate to the process for preparing and adopting the Annual Budget 2020/2021 and any adjustments to rates.
- 10. The Audit and Risk Committee has a key role to play in ensuring that the council is in a position to make sound decisions based on robust information and analysis. On 14 April 2020 the Audit and Risk Committee reviewed the methodology and key assumptions used to undertake the financial scenario modelling and concluded that these were reasonable given the circumstances.
- 11. The Audit and Risk Committee also noted that the COVID-19 situation presents significant risks to the financial position of the Auckland Council group and that the high level of uncertainty around this situation means that the financial implications for the council group are also highly uncertain.

## Tātaritanga me ngā tohutohu Analysis and advice

- 12. The key trade-offs that the council will need to make in response to this situation involve balancing the cost imposed on ratepayers now and in the future against the need to continue to deliver critical council services and investments to support economic recovery, while at the same time maintaining the council group's sound financial position.

## Balancing key financial strategy considerations

13. The key considerations that the council will need to balance are set out in the following table:

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

14. The analysis in Attachment A suggests that the strong financial and liquidity position of the council going into the COVID-19 situation mean that the impacts of this situation should be manageable for the remainder of the current financial year. However, ongoing disruption into next financial year would present some challenges for the council's core financial strategy parameters.
15. Specifically, it would probably not be possible to achieve a balanced budget and compliance with the 270% debt to revenue ratio policy limit in 2020/2021 without radical cuts to council's services and investments (over and above the spending reductions or delays caused by the disruption itself). Cuts of this nature would require the council to undertake an audited Long-term Plan amendment process with public consultation via a four week special consultative procedure, which would add considerable time to the process for finalising the annual budget.
16. Council staff consider that the most important considerations set out in the table above are the long-term ones. These go to the heart of the council's 10-year budget (Long-term Plan) which seeks to balance prudence and affordability for ratepayers with the need to make progress for the region. This in turn, is critical to deliver the key long-term outcomes for the region set out in the Auckland Plan 2050. Staff do not believe that now is the time for council to lessen its commitment to any of those long-term strategies.
17. In the short-term, staff consider that it would not be in the best interests of the community to make deep cuts to council services and investments to achieve compliance with the key financial parameters in 2020/2021. Such cuts would delay progress towards achieving the council's key strategies and be counter to the current needs to the community and the government's efforts to restart the economy. This could lead to a significant and enduring negative impact on social and economic wellbeing for Aucklanders. On the other hand, staff consider that one year of non-compliance with key financial parameters is not likely to have any severe or long-lasting consequences provided there is a clear commitment and credible plan for the council group to rapidly return to a state of compliance.
18. A key part of maintaining commitment to the council's existing long-term strategies is maintaining the planned path of growth in rates revenue. This would mean "catching up" on any reduction in the planned 3.5% average general rates increases in 2020/2021 in the following rating year. Not doing so would lead to either a reduction in investment capacity or a longer period of non-compliance with the debt to revenue ratio policy limit.

19. Another way to address the short-term affordability consideration is through the use of more targeted rates relief measures. These are outlined in Attachment A and discussed further below.

### Approach to finalising Annual Budget 2020/2021

20. The council is required under the Local Government Act 2002 to adopt an annual plan by 30 June. However, significant budget changes and changes to rating policy require public consultation. Therefore, the council needs to balance the requirement to adopt its Annual Budget by 30 June 2020 with the requirement to undertake adequate public consultation on key budget or rating changes that are being considered as a result of COVID-19.
21. Staff are therefore investigating options to consult on changes to budgets and rates postponement policy with adoption by 30 June or 31 July 2020. Staff are also liaising with the broader local government sector and the Department of Internal Affairs on the issues of statutory compliance.
22. Council staff recommend that a principle-based approach is made to the finalisation of the Annual Budget 2020/2021. This would be focused on a considered assessment of the most likely scenario that Auckland will face in the coming year, based on expert advice and government announcements. A budget position for further public consultation would be prepared focusing on ensuring the council can continue to deliver essential and critical services to Aucklanders and to invest to both support economic activity and to achieve the goals set out in the Auckland Plan.
23. Taking the six month disruption scenario from Attachment A as most likely for now, and applying the key considerations above, some of the key parameters for the Annual Budget 2020/2021 may be:
- a group capital investment programme maintained at around \$2.3 billion, being a similar level to the projected current year outcome and a substantial lift to the \$1.6 billion delivered on average over the last five years.
  - a 3.5% average general rates increase with a targeted approach to rates relief for ratepayers experiencing financial stress.
  - a \$450 million reduction in group cash revenue, partially offset by a \$200 million reduction in cash operating expenditure resulting in an unbalanced budget and a departure from the council's depreciation funding policy for that year.
  - a projected debt to revenue ratio of around 286%, temporarily higher than the policy limit of 270% for one year.
24. Given the high level of uncertainty, it would be appropriate for the annual budget to describe the nature of this uncertainty and disclose the probable consequences for the council's financial position if disruption is more or less severe than assumed.
25. A key way to maximise the capital investment that will be needed in Auckland post-disruption, and to mitigate the risk of more severe disruption further reducing council revenue and investment capacity will be to increase collaboration with central government. This means working in partnership with government to progress capital investment in ways that are not limited by the council's debt constraints.
26. While staff do not recommend reducing spending on critical council services or reducing capital investment at the scale necessary to comply with the key long-term financial parameters, it would be prudent to reduce non-urgent discretionary expenditure wherever possible. Doing so would reduce the amount of cash we need to borrow and would help mitigate the risks of disruption being more severe or longer lasting than assumed. Furthermore, in an environment where business and household incomes are falling, it will be more important than ever to spend ratepayer money wisely.



27. While defining critical versus discretionary council services is a challenging and subjective exercise, staff will undertake some analysis and provide elected members with potential options for reducing spending on discretionary activities.
28. In undertaking work on finalising the annual budget, staff will give careful consideration to the potential impact of disruption and budget decisions on local activities and Māori outcomes.
29. Because of the temporary departure from compliance with the debt to revenue ratio policy limit, this approach would require discussion with our credit rating agencies. To maintain their ongoing confidence in the council's credit outlook, this discussion would need to also cover factors such as the nature of the capital investment the council is intending to fund, the council's renewed commitment to long-term financial prudence and the key areas of collaboration with central government on the medium-term plan for economic recovery in Auckland.

### Rates relief

30. The COVID-19 situation is causing disruption to many residents and businesses giving rise to both immediate cash challenges and medium to longer term uncertainty. Accommodation providers are amongst the hardest hit. Options to provide support to both residential and business ratepayers are included in the analysis in Attachment A.
31. The key considerations when assessing these options include the efficacy of each in addressing the consequences of financial stress, the impacts on the council's overall financial position, and the long-term consequences of decisions for the council's future investment capacity
32. One approach to providing some rates relief is to reconsider the currently proposed 3.5% overall average general rates increase for 2020/2021. This approach is not recommended as it would provide rates relief based on property value rather than need and would not help financially stressed ratepayers address immediate cashflow challenges. It could have significant long-term consequences, particularly if a lower rates increase in 2020/2021 was not "caught up" the following year.
33. If the average general rates increase was lowered to 0% for next year, then it would reduce the council's borrowing capacity by over \$200 million. If the council was to proceed with this, not reduce capital investment and not catch-up with a 7% average increase the following year, then it could take five years until the debt to revenue ratio drops back below the 270% limit. This may cause significant concern for the council's credit rating agencies and bondholders.
34. Maintaining annual average rates increases of 3.5% is a core component of the long-term revenue settings that underpin the council's \$26 billion 10-year capital investment programme. A material departure from that core setting would mean significant longer-term impacts on planned council investments and service levels.
35. Another approach is to provide different forms of rates relief that are targeted to those most in need. Staff are proposing the following targeted relief options:
  - i. *Suspending the Accommodation Provider Targeted Rate (APTR) for a year.*

It appears likely that restrictions on travel and mass gatherings will remain in place for some time and so planned expenditure on visitor attraction and major events currently funded by the APTR needs to be reconsidered. Staff recommend that council support in principle a proposal from the board of ATEED to suspend the APTR and the associated spending on these activities for one year from 1 April 2020 to 31 March 2021. The ATEED board have confirmed that they will be able to achieve the necessary cost reductions to neutralise the cashflow impacts of this proposal.



- ii. *Deferring 2019/2020 fourth quarter rates instalment for three months for residential and business ratepayers experiencing financial hardship.*

Staff recommend using current rating policies to allow those who can demonstrate financial hardship and who agree to enter into a payment plan to defer the payment of the May rates instalment, without penalty, to August 2020. Ratepayers may then also be able to apply for rates postponement under a revised policy next year. It is estimated that between \$30 to 125 million of rates payments might be deferred for 3 months, which is currently forecast to be able to be accommodated within the council's 270% debt to revenue ratio policy limit.

- iii. *Extending the rates postponement policies for the 2020/2021 rating year to businesses.*

For the 2020/2021 rating year, staff recommend consulting on an extension to the existing rates postponement policy to cover businesses experiencing financial distress. The estimated maximum take-up of a revised policy is about \$90-100 million in 2020/2021 and \$25-30 million in 2021/2022.

## **Tauākī whakaaweawe āhuarangi** **Climate impact statement**

36. Disruption from the COVID-19 situation may delay some of the key early actions set out in the existing consultation document for the Annual Budget 2020/2021. The key actions proposed included decarbonisation of the council fleet and the phase out of gas boilers at council facilities. Further information and advice on these initiatives will be provided as the annual budget is finalised.

## **Ngā whakaaweawe me ngā tirohanga a te rōpū Kaunihera** **Council group impacts and views**

37. The analysis in Attachment A of this report is based on information on the financial implications of COVID-19 that has been pulled together from right across the council group. Each of the CCOs has undertaken some form of reporting or engagement with their board of directors on these matters.
38. Further information and input will be sought from across the council group as the Annual Budget 2020/2021 is finalised

## **Ngā whakaaweawe ā-rohe me ngā tirohanga a te poari ā-rohe** **Local impacts and local board views**

39. The most significant impacts on local activities of the COVID-19 disruption relate to local libraries, pool and leisure centres, community centres and halls which have been closed since 20 March 2020. It remains uncertain when these facilities can be re-opened, or what social distancing restrictions may be in place when they do.
40. Several local board funded programmes that are delivered from these facilities will not go ahead and in some cases the costs related to these activities may have been committed and spent. Locally delivered community development initiatives and events such as ANZAC Day services have also been cancelled. Several initiatives that are on hold may possibly be delivered later this financial year or deferred to 2020/2021.
41. Local board capital programmes also face disruptions with current works on hold and planned activities unable to commence until restrictions are removed.
42. Part of the process for finalising the annual budget (including 21 local board agreements) will include further engagement with local boards to agree local activity budget changes and work programmes for 2020/2021.

43. Small community groups facing financial hardship may seek local board support via grants to assist them through this difficult period. Local boards have their own local grants programmes which could be used if applications for financial assistance are received. These local grant programmes operate under the umbrella of the broader Auckland Council Community Grants Policy and are a key tool local boards use to implement the vision set out in their local board plans.

## **Tauākī whakaaweawe Māori** **Māori impact statement**

44. Disruption from COVID-19 is resulting in slowing down of Māori Outcomes portfolio (Te Toa Takatini). This is the portfolio of projects funded through the long-term plan and business-as-usual. The portfolio is one of the main ways the council meets its legislative obligations to Māori. Although most projects from the fund will continue, the council is taking a pragmatic approach. Some examples of the funding that will progress includes:
- Grants (capacity grants and Cultural Initiatives Fund).
  - The Mana Whenua Kaitiaki Forum funding for which the budget is already agreed.
  - The Regulatory Services Cultural Values Assessment project which is also highlighted as essential to ensure continued mana whenua involvement in consenting services.
45. We understand that Māori are particularly vulnerable to the impacts of COVID-19. Opportunities are being considered to repurpose existing Māori Outcomes budget to support Māori-led responses to and recovery from COVID-19.
46. The impact of budget changes and rating decisions on Māori will be considered as the Annual Budget 2020/2021 is finalised.

## **Ngā ritenga ā-pūtea** **Financial implications**

47. Financial implications are discussed in the body of this report, with further details set out in Attachment A.

## **Ngā raru tūpono me ngā whakamaurutanga** **Risks and mitigations**

48. The high-level financial risks of the COVID-19 situation for the council group are covered in the body of this report and Attachment A.
49. The Audit and Risk Committee plays a key role in maintaining oversight and advising the Governing Body on the management of these financial risks and the associated compliance matters, including whether or not a robust process has been followed.

## **Ngā koringa ā-muri** **Next steps**

50. If the recommendations are agreed, finance staff will finalise a timeline and process that enables further public consultation prior to adoption of the Annual Budget 2020/2021. This process will include preparation of a Consultation and Engagement Plan and consultation materials for elected members to consider. Decisions to adopt consultation materials, adopt the final annual budget and set rates will need to be made by the Governing Body as these matters can not be delegated to a committee.
51. Finance staff will work with the Chief Economist to update the definition of our “most likely scenario” with the latest information available, including new government decisions as they are announced. Updated financial impact information will be collated from across the council group based on that scenario and options for budget decision-making will be prepared. This will include options for reducing spending on discretionary activities.

52. Staff will progress discussions with credit rating agencies and continue to engage with central government officials on statutory compliance matters and opportunities for greater collaboration on capital investment in Auckland post-disruption.

## Ngā tāpirihanga Attachments

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## Ngā kaihaina Signatories

Author	Ross Tucker - General Manager, Financial Strategy and Planning
Authorisers	Kevin Ramsay - Acting Group Chief Financial Officer Phil Wilson - Governance Director



## COVID-19 Financial Update

### Purpose

1. The purpose of this document is to:
  - a) Understand the potential financial impact of the COVID-19 situation including the short-term outlook to 30 June 2020 and under a range of scenarios for the financial year 2020/2021.
  - b) Consider the approach to finalising the Annual Budget 2020/2021.
  - c) Consider options for targeted rates relief for ratepayers experiencing financial difficulties.

### Executive Summary

2. Prior to the COVID-19 situation the Auckland Council group was in a strong financial position, with over a billion dollars of standby facilities, debt at 245% of revenue and a credit rating of AA/Aa2.
3. Cash operating revenue for the group is forecast to be \$250 million lower in the 2019/2020 financial year due to the effects of COVID-19. The cashflow consequences of this reduced revenue is forecast to be fully offset by reduced operating expenditure and capital investment cashflows. However, the lower revenue means that debt to revenue ratio is forecast to reach 262% by 30 June 2020 compared to a budget projection of 253%. This is still within the council's debt to revenue policy limit of 270%.
4. Financial scenario modelling indicates that if COVID-19 disruption lasts for six to twelve months then cash operating revenue for the group may be \$450 to \$650 million lower than currently budgeted for 2020/2021. While lower spending and slower capital investment may again mitigate the cashflow impact, the revenue impact may result in debt to revenue temporarily exceeding the 270% policy limit for one year.
5. In the case of **six months disruption**, it is likely that the group will be able to deliver around \$2.3 billion of capital investment in each of the 2019/2020 and 2020/2021 years. While lower than planned prior to the COVID-19 situation, this is still a significant lift to compared to the \$1.6 billion delivered on average for the previous five years. If the council wanted to further reduce capital investment in order to operate safely within debt limits in all years, then capital investment would need to be reduced to about \$1 billion in 2020/2021.
6. In the case of **twelve months disruption**, it is likely that the group will only be able to deliver capital investment at the historical average rate of \$1.6 billion in 2020/2021. In this scenario, it would not be possible to stay within the debt policy limit in all years by further reducing capital investment.
7. Possible responses to this situation could include:
  - working in partnership with central government to progress capital investment in a way that is not limited by the council's debt constraints
  - discussing with credit rating agencies capital investment scenarios at the projected levels of \$1.6 to \$2.3 billion in 2019/2020 with a debt to revenue ratio higher than 270% for one year
  - looking at key revenue settings, operating expenditure levels and asset disposals.

8. The council is required under the Local Government Act 2002 to adopt an annual plan by 30 June. However, significant budget changes and changes to rating policy require public consultation. Therefore, the council needs to balance the requirement to adopt its Annual Budget by 30 June with the requirement to undertake adequate public consultation on key budget or rating changes that are being considered as a result of COVID-19. Staff are therefore investigating options to consult on changes to budgets and rates postponement policy with adoption by 30 June or 31 July 2020.
9. The COVID-19 situation is causing disruption to many residents and businesses giving rise to both immediate cash challenges and medium to longer term uncertainty. Accommodation providers are amongst the hardest hit. However, any decisions around rates relief would need to be made with regard to the council's overall financial position and the long-term implications of that decision.
10. One approach to providing some rates relief is to reconsider the currently proposed 3.5% overall average general rates increase for 2020/2021. This approach would provide rates relief based on property value rather than need and would not help financially stressed ratepayers address immediate cashflow challenges. It could have significant long-term consequences, particularly if a lower rates increase in 2020/2021 was not "caught up" the following year.
11. Another approach is to provide different forms of rates relief that are targeted to those most in need. Staff are proposing a range of targeted options including:
  - i. Suspending the Accommodation Provider Targeted Rate for a year.
  - ii. Using existing policies to provide relief for the 2019/2020 fourth quarter rates instalment.
  - iii. Considering options for extending rates postponement policies for the 2020/2021 rating year.

### Analysis and advice

#### COVID-19 situation

12. Auckland Council group has a crisis management team focused on the COVID-19 situation and this team will report and advise on all operational issues related to the situation. The team is working collaboratively across all entities within the group and is following the lead of central government and the Ministry of Health to ensure a nationally coordinated approach. The operational implications of the situation are reported elsewhere, with this document focusing on purely the financial elements.

#### Financial starting point

13. Prior to the COVID-19 situation the council group had maintained a strong financial position. In the half year to December 2019 the group exceeded its direct revenue target by 7%, maintained control of operating expenditure and delivered a record level of capital investment. At the same time debt was kept at 245% of revenue and the group maintained an AA/Aa2 credit rating.
14. The council currently has access to between \$1.2 billion and \$1.3 billion of funds through committed standby facilities with 10 banks. These facilities are intended to provide liquidity in the event that the council is not able to access funding through the normal debt capital markets. The facilities have a range of maturity dates of between one and three years.



15. While the council has considerable financial flexibility in the near term to deal with unexpected shocks, the long-term projections were for the debt to revenue ratio to reach our 265% internal ceiling over the next few years as capital investment in the region progresses.
16. A number of unbudgeted pressures were identified as part of the annual budget process, including additional operating expenditure to support 2021 events, further funding for growth in public transport and an increase in net operating funding for RFA. It was anticipated that these pressures could be accommodated with only some modest adjustments to the pace of capital delivery in the short-term.

### Current year forecast

#### *Operating and capital cashflows*

17. Cash operating revenue is forecast to be \$250 million lower in the 2019/2020 financial year due to the effects of COVID-19. This is primarily driven by reductions in Auckland Transport revenue (including public transport impacts not fully covered by NZTA and the impact on parking and infringement revenues), non-receipt of the interim airport dividend, lower regional fuel tax collected and unpaid or deferred rates. Other notable revenue impacts include regulatory fees, event income and facilities revenue.
18. Cash operating expenditure may reduce by about \$100 million. This is largely from a reduction in public transport services and pausing spending on non-essential service during the lockdown including reductions in temporary staff and contractors.
19. The net operating cashflow impact of about \$150 million is forecast to be more than offset by reduced net capital funding requirements due to labour and supply chain disruptions impacting the timing of capital projects.

#### *Borrowings and liquidity*

20. Because of the offset impact of operating and capital cashflows, net debt is forecast to be close to the budget of \$9.6 billion at 30 June 2020. However, the debt to revenue ratio is forecast to reach 262% compared to the Annual Budget 2019/2020 projection of 253%. This is not due to debt movements, but rather due to the forecast \$250 million reduction in revenue impacting the revenue part of the debt to revenue ratio. This forecast assumes that the impact of unpaid or deferred rates is at the lower end of the potential range. This forecast remains within internal policy limits, credit agency guidance on ratios and Local Government Funding Agency (LGFA) debt covenants.
21. Because of the high level of uncertainty there is some risk that the 270% debt to revenue policy limit might be exceeded once the actual financial results for 2019/2020 are known. In particular, the debt to revenue ratio may be higher because of:
  - i. Additional cash holdings resulting in gross debt being temporarily higher.
  - ii. Accounting adjustments changing the reported fair value of our debt in an unfavourable manner.
  - iii. More ratepayers than expected experiencing financial hardship and entering into payment plans to defer their May instalment until August.
22. An actual outcome slightly above 270% due to such factors is unlikely to be of great concern to rating agencies. For example, holding additional cash in uncertain times would be seen as a highly prudent thing to do in the current environment.
23. Access to debt markets has become challenging and volatile, but existing standby facilities provide a sufficient liquidity buffer including the ability to refinance maturing debt.



### Scenario modelling methodology

24. Input was sought from departments within Auckland Council and each of the CCOs on the financial impacts of COVID-19.
25. The following scenarios were agreed to by all areas and the financial impacts for the next financial year were assessed under each of the scenarios.

Adjusted status quo	A rapid return to normal, minimal change to Annual Budget 2020/2021 aside from a few already known impacts (airport dividends, cancelled events)
6 months disruption	Disruption lasts from March to September 2020 with varying alert levels
12 months disruption	Disruption lasts from March 2020 to March 2021

26. Central finance staff have validated the inputs, ensured that a level of consistency was been applied across the different areas of the group and assessed the impact on group-level items. This included things such as airport dividends, regional fuel tax, rates and development contributions.
27. Where possible, reviews have been undertaken and advice sought to critique the assumptions. The Chief Economist for Auckland Council has reviewed different aspects including rates and development contribution modelling and provided advice and recommendations.

### Potential financial impacts in financial year 2020/2021

#### Operating impacts

28. Long-term disruption would significantly impact many revenue lines. Auckland Transport would be the single largest affected area, with both parking and infringement, and public transport revenue being impacted. Other significantly affected areas include regulatory fees, rates, fuel tax, events and facilities, airport dividends, ports and Watercare.
29. The potential impacts of the three scenarios on operating budgets are estimated as follows:

	Adjusted status quo	6 months disruption	12 months disruption
Cash operating revenue	-\$120M	-\$450M	-\$650M
Cash operating expenditure	-\$30M	-\$200M	-\$300M
Net operating cashflow	-\$90M	-\$250M	-\$350M

30. With this level of impact, the council would not be able to achieve a balanced budget in terms of the Local Government Act 2002 and its depreciation funding policy. However, when all relevant factors are considered it may well be prudent for the council to resolve to not run a balanced budget for 2020/2021 (as provided for the Local Government Act 2002) provided there is a clear commitment to returning to prudent long-term financial settings in the near future.

31. While the reductions in cash operating revenue are anticipated to be partially offset by reductions in cash operating expenditure, it is the gross revenue reductions that are the primary constraint on further borrowings because of the impact they have on the debt-to-revenue ratio calculation.

*Capital impacts*

32. Council investment and service delivery is highly reliant on imported goods and services. Changes to levels of business activity in other markets, constraints and barriers to global shipping, and limits on travel for expert staff will lead to procurement challenges.
33. In many cases this will directly lead to a slow-down in the delivery of capital investment. For example, the new electric trains ordered by Auckland Transport are assembled in Spain but with many components sourced from China. The combination of the hiatus in Chinese production in January and February and the current lockdown measures in Spain mean that these will be significantly delayed.
34. There will also likely be impacts on capital funding sources:
- i. A further slowdown of development contribution receipts.
  - ii. A reduction in NZTA capital subsidies following any reduction in transport spend.
  - iii. A reduction in regional fuel taxes collected as people travel less.

35. The potential impacts of the three scenarios on capital investment delivery are estimated as follows:

	Adjusted status quo	6 months disruption	12 months disruption
Capital delivery	-	-\$300M	-\$1,000M
External capital funding	-	-\$200M	-\$400M
Net capital funding requirement	-	-\$100M	-\$600M

36. In the case of the **six month disruption** scenario, the impacts on capital project timing is projected to result in capital delivery of around \$2.3 billion in both the current year and 2020/2021. While lower than anticipated prior to the COVID-19 situation, this still represents a substantial lift in delivery from the average annual capex delivery for the group of \$1.6 billion over the previous five years. If this lift can be maintained, it would represent a significant contribution to the economic recovery effort.
37. In the case of **twelve month disruption** scenario, this lift would not be able to be maintained and group capital delivery would drop back to the historic rate of about \$1.6 billion in 2020/2021.

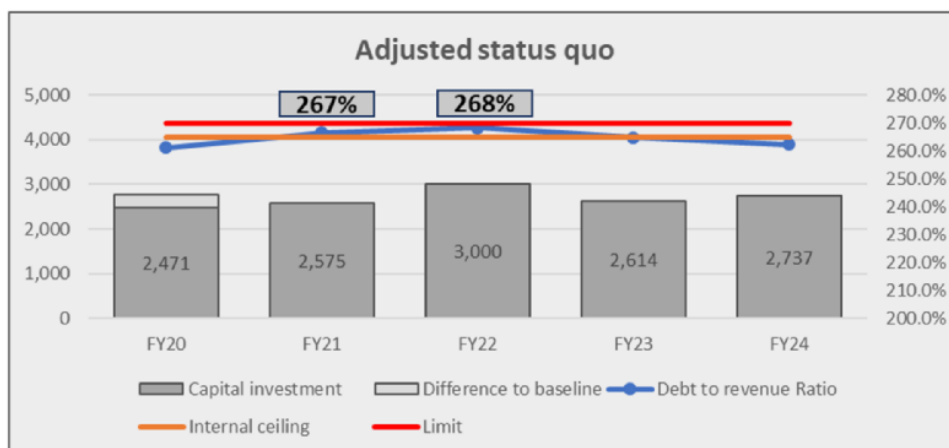
*Debt management*

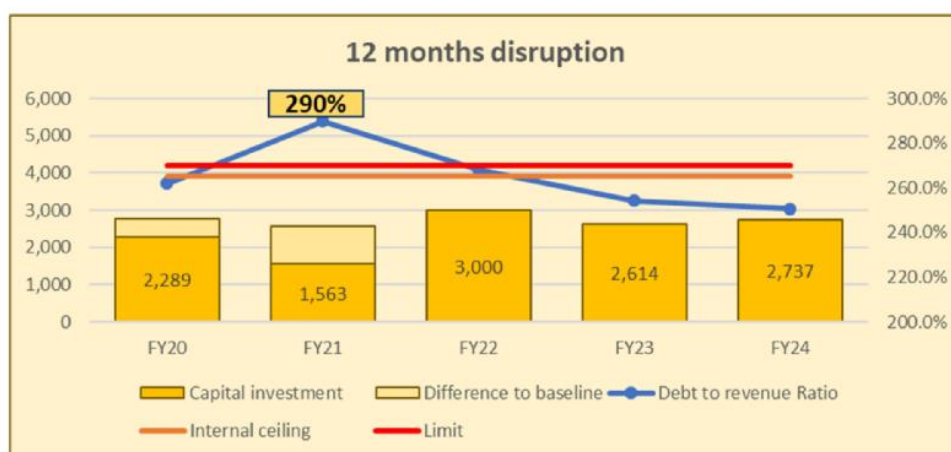
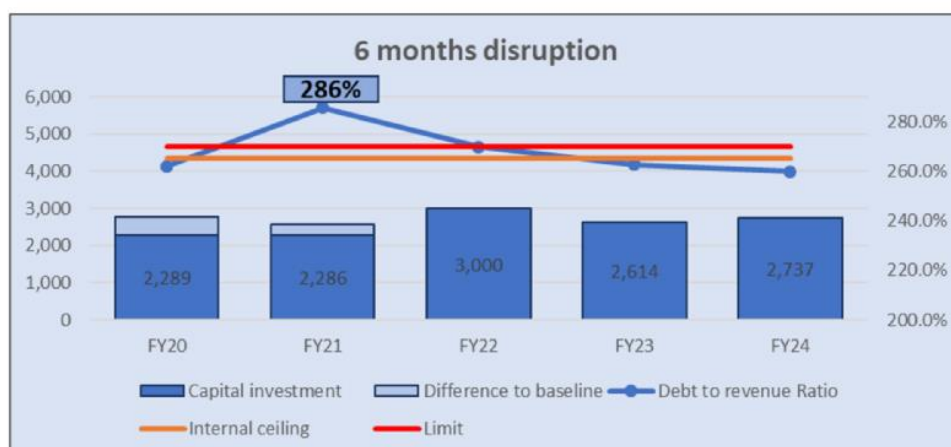
38. The key trade-off in managing the council's debt in the COVID-19 situation is between:
- i. Maintaining the delivery of council services and investments to support the government's economic response; and
  - ii. Ensuring long-term financial prudence for ratepayers.
39. For the scenarios with significant ongoing disruption, the adverse operating cashflow impact is estimated to be offset by a lower capital funding requirement, meaning it is likely that debt levels will be broadly in line with what is currently planned for in 2020/2021. However, the reductions in revenue will put significant pressure on debt to revenue ratio for that one year.

40. The projected debt to revenue ratio impacts are set out in the following table, along with the further reductions in capital expenditure in 2020/2021 that would be required (over and above the reductions directly caused by disruption) in order to stay safely below the policy limit at 265%. However, this is not possible in the 12 month disruption scenario.

	Adjusted status quo	6 months disruption	12 months disruption
Debt to revenue in 2020/2021	267%	286%	290%
Debt to revenue policy limit	270%	270%	270%
Further required reduction in capex	\$150M	\$1,350M	N/A

41. While the adjustments required in the adjusted status quo represent only modest changes, the extent of capex reduction in the 6 month disruption scenario that would be required to maintain the debt to revenue ratio at 265% are substantial. It would mean reducing the group capital programme for 2020/2021 down to around \$1 billion, requiring many construction contracts to be cancelled and probably mean only delivering the most critical projects to maintain essential services and protect public safety.
42. The following charts show that debt ratio impacts would be temporary, reflecting the projected temporary nature of the revenue impacts.





43. For the scenarios with significant ongoing disruption, the adverse operating cashflow impact is estimated to generally be offset by a lower capital funding requirement, meaning it is likely that debt levels will be broadly in line with what is currently planned for in 2020/2021. However, the reductions in revenue will put significant pressure on debt to revenue ratio for that one year.
44. One response to resolving the key trade-off question might be to further slowdown capital delivery as indicated in the analysis above. However, this could run counter to any government-led economic stimulus package and be detrimental to the long-term economic prospects of Aucklanders. Furthermore, the contractual situation for large capital projects is complex, and the short-term response of suspending contracts and accepting claims/variations to keep the workforce in place is unlikely to be viable long term.
45. Another response would be to work in partnership with central government to progress capital investment in a way that is not limited by the council's debt constraints. The current work underway in response to the government seeking out construction projects ready to start as soon as the construction industry returns to normal ("shovel ready" projects) is a key example of this.
46. The council could also discuss with credit rating agencies capital investment scenarios at these levels with debt to revenue higher than 270% for one year.

47. Other responses could be to look at key revenue settings, operating expenditure levels and asset disposals.

### Annual Budget 2020/2021

48. Consultation for Annual Budget 2020/2021 was completed in March. Concurrently council departments and CCOs have refreshed their budgets, considering any changes to cost, revenue and timing projections. Political decision-making workshops and committees were scheduled to occur in April and May.
49. The subsequent COVID-19 situation will now have a significant impact on budget setting. Staff have identified the following three approaches the council could take from here:

Only revise budgets when there is a high degree of certainty	<ul style="list-style-type: none"> <li>Aligned to revised status quo scenario</li> <li>Clearly disclose high level of uncertainty, and potential impacts of that uncertainty</li> <li>Commit to revising budgets during the year if required</li> </ul>
Take a "most likely" approach	<ul style="list-style-type: none"> <li>Take a position based on advice from economists and forecasters</li> <li>Perhaps aligned to six-month disruption scenario</li> <li>Signal both positive and negative impacts of uncertainty</li> </ul>
Take a "worst case" approach	<ul style="list-style-type: none"> <li>Perhaps aligned to twelve-month disruption scenario</li> <li>Be prepared to increase spending if revenue becomes more favourable</li> </ul>

50. Council staff recommend taking a "most likely approach" on the basis that the other approaches may be beyond what can be considered a reasonable reflection of likely outcomes and are more likely to lead to further budget planning rounds which could cause further disruption and uncertainty.
51. The council is required under the Local Government Act 2002 to adopt an annual plan by 30 June. However, significant budget changes and changes to rating policy require public consultation. Therefore, the council needs to balance the requirement to adopt its Annual Budget by 30 June with the requirement to undertake adequate public consultation on key budget or rating changes that are being considered as a result of COVID-19.
52. Current advice from the wider local government sector suggest that the need for adequate public consultation is the most critical Local Government Act 2002 compliance issue.
53. Staff are investigating options to consult on changes to budgets and rates postponement policy with adoption by 30 June or 31 July 2020. Staff are also liaising with the broader local government sector and the Department of Internal Affairs on the issues of statutory compliance.

### Rates relief

54. The COVID-19 situation is causing disruption to many residents and businesses giving rise to both immediate cash challenges and medium to longer term uncertainty. Accommodation providers are amongst the hardest hit.
55. While rates are usually a small portion of overall costs for both residents and businesses, these costs are a fixed cost while most business and household income is falling.



56. We currently offer a number of options to ratepayers experiencing difficulties paying their rates including:
- i. Advice on access to the government rates rebate scheme administered by the council.
  - ii. Development of a payment plan (which usually requires full payment of the rates for the year by 30 June) with no penalty if ratepayer keeps to agreed plan.
  - iii. Access to the council's rates postponement policy which is not means tested and is open to all residential ratepayers who:
    - o live at the property; and
    - o have owned it for more than two years; and
    - o have postponed rates that are not more than 80% of their equity in the property.
57. One approach to providing some rates relief is to reconsider the currently proposed 3.5% overall average general rates increase for 2020/2021. Another option is to provide different forms of rates relief that are targeted to those most in need.
58. Council staff are proposing a range of targeted options to providing rates relief including:
- i. Suspending the Accommodation Provider Targeted Rate for a year.
  - ii. Using existing policies to provide relief for the 2019/2020 fourth quarter rates instalment.
  - iii. Considering options for extending rates postponement policies for the 2020/2021 rating year.

*Changes to rates increase*

59. The average general rates increase included for 2020/2021 in our 10-year Budget and referred to in our Annual Budget Consultation Document was 3.5%. This equates to \$59 million of additional ongoing annual revenue.
60. If the council were to reduce the level of increase this would put pressure on both our operating funding and on our debt to revenue ratio. The multiplier effects of the ratio mean that the impact on our borrowing capacity would effectively be 365% of the revenue foregone.
61. The impact of different levels of average general rates increase on revenue and therefore borrowing capacity are set out in the table below:

Level of average general rates increase	Revenue foregone	Borrowing capacity change
0%	\$59m	-\$214m
1.5%	\$33m	-\$122m
2.5%	\$17m	-\$61m
3.5%	\$0m	\$0m

62. The impact of a lower rates increase on the 2020/2021 annual budget would therefore result in both reduced funding for operational activities (from the cashflow impact) and reduced borrowing capacity for capital investment (from the debt to revenue ratio impact). Depending on decisions made through the annual budget process, this could materially impact some service levels and work against the government's efforts to support economic recovery.

63. Given that the increase in general rates each year creates a permanent increase in the council's annual revenue, a lower average rates increase in 2020/2021 would need to be "caught up" the following year (for example a 0% increase in 2020/2021 and a 7% increase in 2021/2022) in order to achieve the long-term revenue settings underpinning the council's \$26 billion 10-year capital investment programme.
64. Not "catching up" on the average rates increase would therefore mean longer-term impacts on investments and service levels. Depending on the capital investment decisions for 2020/2021, it may also mean that the projected debt to revenue ratio remains elevated above the 270% policy limit for more than one year. For example, in the six-month disruption scenario outlined above with a \$2.3 billion capital programme in 2020/2021, a 0% rates increase with no catch-up would result in it taking five years for the ratio to drop back below 270%. This would raise questions about the sustainability and prudence of the council's medium-term financial strategy and may cause significant concern for the council's credit rating agencies and bondholders.
65. From a ratepayer's perspective, just reducing next year's average rates increase will not address the immediate cashflow issues associated with paying the next quarter's rates instalment. It also means the benefits of this relief will be proportional to property value, with no regard to the revenue or cashflow impacts being experienced by that ratepayer.

*Accommodation Provider Targeted Rate*

66. The APTR seeks to recover from accommodation providers a fair proportion of visitor attraction and major events spending by ATEED. It appears likely that restrictions on travel and mass gatherings will remain in place for some time and so this type of expenditure is unlikely to be beneficial at this time.
67. The board of ATEED have therefore proposed that the APTR and the spending on these activities that the APTR funds both be suspended for one year from 1 April 2020 to 31 March 2021. Once travel restrictions are lifted investment in visitor attraction and major events will be key to revitalising the tourism sector, and the APTR would then resume to help fund this investment. If the disruption to this sector was to persist for much longer than anticipated, then there would be plenty of time to review the situation ahead of 31 March 2021.
68. Staff propose that the immediate suspension of the APTR be implemented by remitting the fourth quarter instalment of APTR for the current year (and refunding any prepayments) using the existing scheme for the remission of rates for miscellaneous purposes. The size of this remission is estimated to be \$3.3 million. The ATEED board have confirmed that they will be able to balance the group cashflow impact of this by reducing their operating expenditure by this amount within the current financial year.
69. The process for confirming the APTR rate and changes to the associated spend for next year will be through the annual budget process discussed above. Based on the above proposal, staff recommend that further public consultation for the Annual Budget 2020/2021 include a proposal to reduce the revenue to be collected by the APTR in 2020/2021 to one quarter of the currently planned amount, with this payable by the due date for the fourth quarter rates instalment for next year. This would have the effect of suspending the rate until 31 March 2021 and resuming it for the final quarter of the financial year. The estimated revenue reduction is \$10.7 million and the ATEED board have confirmed that they would be able to reduce their spending by this same amount if that is the decision confirmed via the Annual Budget process following public consultation.



70. This approach would preserve the purpose and the intention of the rate and be cashflow neutral for the council group. It would still however have a revenue impact on the debt-to-revenue ratio.

*Fourth quarter rates instalment*

71. The fourth quarter rates instalment of \$392.6 million (GST excl) is due by 28 May 2020. Meeting this obligation will be a challenge for ratepayers that are already financially stressed and who haven't paid in advance.
72. Staff consider that it is important for council to recognise the impact this challenge could have on the community and support the government's actions by providing some relief for those ratepayers who urgently need assistance with paying this bill. However, the council is constrained by its ability to raise debt and the need to maintain services and investment. Therefore, staff recommend the use of payment deferral and postponement options rather than remissions.
73. Because it is not practical to consult on and agree a new postponement policy before sending the fourth quarter rates notices, staff propose that the existing scheme for remission of rates penalties be used to allow ratepayers facing financial stress to defer the payment of their fourth quarter rates instalment until 31 August 2020 with no penalty. These ratepayers would have to agree to a payment plan and provide evidence confirming their financial stress.
74. We propose to update our internal guidelines to staff considering applications under our policies. Possible evidence that an applicant is facing financial stress may include:
- i. Business ratepayers who are in receipt of government support e.g. wage subsidy or guaranteed business loan.
  - ii. Residential ratepayers with a mortgage and who have lost their jobs or can demonstrate a substantial reduction in income.
75. The deferral will enable financially stressed ratepayers to defer payment by three months (until the first instalment for the next rating year) with no penalties, interest or requirement to lodge a statutory land charge (as our longer-term postponement policy requires). The council will distribute material alerting ratepayers to how they can find information on financial assistance options along with rates notices. Ratepayers experiencing financial difficulty will have flexible payment options and be able to choose between lump sum options or smaller direct debits. Ratepayers may also be able to apply for rates postponement under a revised policy next year.
76. Under this proposal, it is estimated that between \$30 to 125 million of rates payments might be deferred for 3 months.
77. The current year forecast shown above has allowed for a \$30 million deferral, resulting in a projected debt-to-revenue ratio of 262%. If the deferral was \$125 million debt-to-revenue would be projected to remain below 270% for the current year (assuming nothing else changed). If it became apparent that the uptake is likely to significantly exceed our forecast, we would reconsider this approach.
78. This deferral approach may not be a feasible option for some very small but important community groups that have a key role in supporting local communities, particularly in this period of uncertainty. Some small groups that operate community halls or sports club rooms may have no viable way of funding deferred rates. It is proposed that if necessary, grants are provided via the appropriate decision-making process where exceptional circumstances can be demonstrated and clear benefits to the community are evident. A preliminary analysis of the rates due for small and financially vulnerable community groups that may fit within this category estimates that grants of up to \$1.2 million may be necessary.

*2020/2021 rates postponement*

79. For the 2020/2021 rating year, changes to the existing postponement policy can be considered as there is more time for consultation and decision making. In developing a proposal, council staff will consider the following matters:
- i. Linking the timeframe of postponement to the time of potential economic recovery.
  - ii. Whether the policy should apply to all types of ratepayers except government and SOEs (i.e. business, residential and farming).
  - iii. Targeting those most in need – primarily based on eligibility for government support, but also considering other aspects such as industry category and whether the property is mortgaged.
  - iv. Medium-term considerations such as equity requirements, and an appropriate interest charge to avoid excessive impacts on council finances.
80. The estimated maximum take-up of such a policy, and therefore impact on the council, is about \$90-100 million in year one and \$25-30 million in year two. This is based on the sectors most likely to be severely affected in the medium term, such as tourism and hospitality. It also considers limited residential uptake due to lower home ownership rates being associated with people employed in the most affected industries, previous experience of ratepayer debt aversion and potential challenges with banks accepting statutory land charges being registered on the title of mortgaged properties.