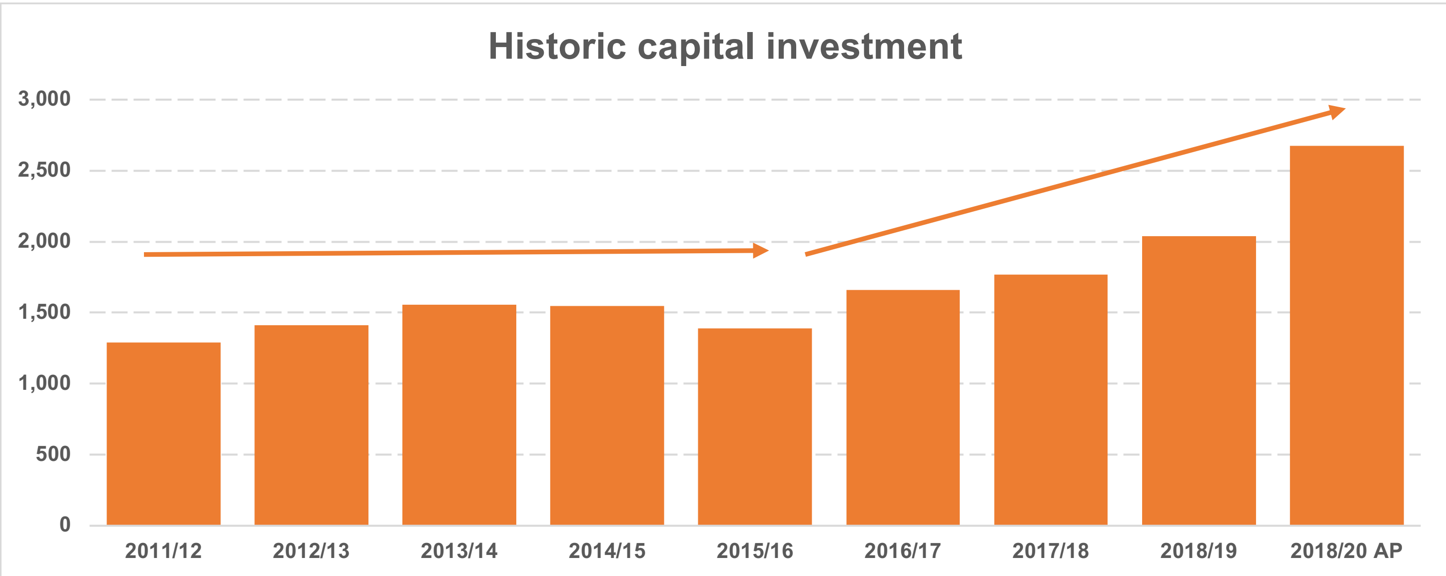
Auckland Council's Emergency Budget – The Facts

Thank you for your email. I would like to provide some facts in response to the comments that have been made, and some perspective.

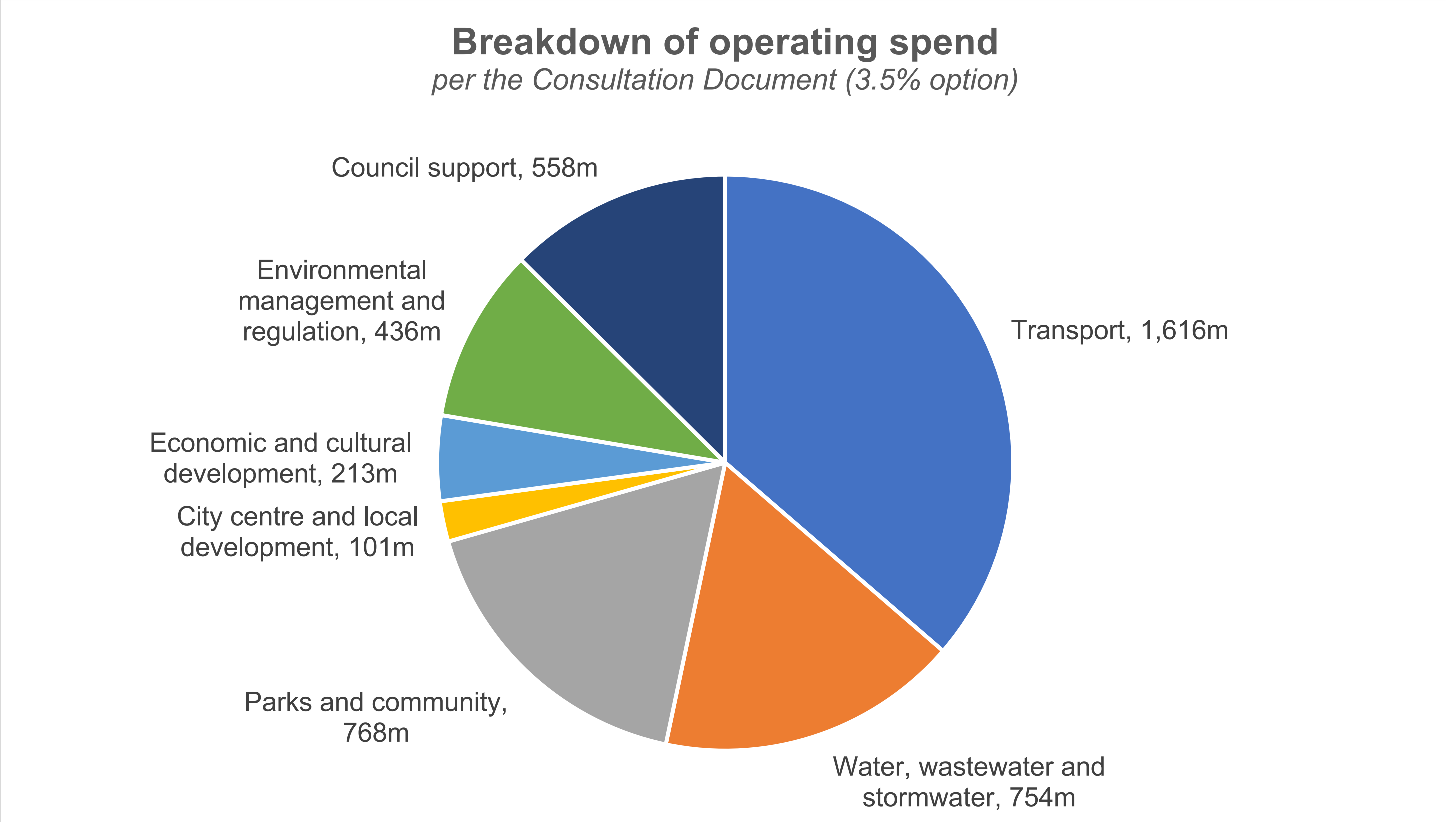
Between 2010 and 2020, Auckland has grown by well over 200,000 people, more than the population of Hamilton. The council's focus on controlling core expenditure has allowed us to cater for the costs of maintaining a large investment programme (primarily interest on debt and allowances for depreciation) in response to this growth.

Debt is used to fund new asset builds or purchases, such as trains, water pipes, wastewater treatment plants, libraries, and sports fields. The capital (capex) program (building of essential infrastructure) has been increasing to match population growth, and to allow for the long-overdue replacement of old assets. An example of this is the Central Interceptor, which when completed will both provide for development growth across the isthmus and reduce overflows of wastewater into our harbours.

The 2020/21 capex budget (pre-Covid-19) was set at a record $2.6 billion. To help us remain fiscally prudent in the face of a projected $500 million revenue shortfall and retain community and investor confidence in our financial position, one of the measures we consulted on was smaller capex programme of $2.3 billion. However, by working through our budget and collaborating with central government, it is likely we will have the capacity to increase this back close to previously planned levels so that we can keep the economy moving forward and supply the assets that Aucklanders require, including drought related works. Reducing our investment program would only drive the economy deeper into recession.



The debt to revenue ratio is a key parameter used by us and financial institutions to gauge the prudence of our debt settings. We set a limit to this ratio of 270% and a sustained breach of this would likely result in a drop in the council's AA/Aa2 credit rating, reducing community and investor confidence and reduce our access to financial markets while facing increased financing costs. Given the council's asset base of over $50 billion our debt to asset ratio is less than 20%. Depreciation is funded so that existing assets can be replaced when they are at the end of their useful life (e.g. community swimming pools, recreation halls, infrastructure). The council is increasing the depreciation funding level and will reach 100% funded by 2025.



Covid-19 caused a severe drop in the council's revenue. Rates make up around 40% of council's operating income, but the remaining 60% comes from public transport fares, development contributions, building consent fees, resource consent charges, parking charges etc., all of which have been affected by Covid-19. Revenue from our strategic assets in Auckland International Airport and Ports of Auckland was also dramatically reduced. The revenue hit is currently projected at $475 million. In addition, we are experiencing a water shortage caused by a record drought. In the immediate future, we need to build capacity from several sources at a cost of $224 million. If this work is not done, more severe water restrictions will become increasingly likely. This will have a detrimental effect on the city's economy and on employment.

The Emergency Budget proposal was outlined in the consultation material. The proposal included a reduction of the capital program to $2.3 billion, which equates to $280 million in deferrals with a 3.5% rates increase (or $345 million with a 2.5% rates increase). The council family is reducing operations expenditure by over $200 million, from both the council itself and the CCOs, compared to what we had planned pre-COVID. We also propose to sell down $244 million worth of property, including underutilized facilities, property leased to private enterprise, and surplus land that was used for roading.

The mayor and I have taken a voluntary 20% salary cut, and councillors have taken a 10% cut. Many of our staff have also taken voluntary salary cuts. Recruitment is taking place only by exception, and restructures are resulting in redundancies across the organisation. As with all large enterprises, there will always be work to do and improvements to be made.

Commentary about overpaid staff simply isn't accurate. With an asset base of over $50 billion, Auckland Council is a very large organisation second only to Fonterra on a national scale. Comparisons made between the council and the private sector are not always relevant, but it is worth noting that senior staff who have come from executive roles in the private sector have taken significant reductions in salary to work at the council. They do this because they want to give back to the city that gave them their opportunities. They also recognise the strategic role Auckland Council plays in building this city and its economy. In some instances, we have lost staff to the private sector and to government agencies who pay considerably more. This is especially prevalent in consenting, property and project management.

Auckland Council is very conscious of the tough financial times that Aucklanders are currently experiencing. Providing essential services, community services and the many world class facilities and events that make Auckland a rich and vibrant region is our primary focus. On top of this, we play an important role in the wellbeing of both our regional and national economy. We must find a healthy balance that is both prudent and focused on recovery and this is precisely where we have landed.

The numbers quoted here are from Auckland Council's Annual Report or from the Emergency Budget consultation material, available on the Auckland Council website. These reports have been approved by the Office of the Auditor-General.