A look at Auckland Council's current finances – August 2014

Are Auckland Council's finances in good shape?

Auckland Council runs a balanced budget, raising enough money every year through rates and other income to pay for the services we deliver.

International credit rating agency Standard and Poor's recently affirmed Auckland Council's financial rating at AA. This is the third-highest credit rating on the Standard and Poor's credit rating scale. It reflects Auckland Council's prudent financial strategy, which emphasises strong financial management, a balanced budget, and efficient, diversified funding sources.

What income does Auckland Council have?

The Auckland Council group collects revenue of around $3.5 billion each year. This is made up of approximately $1.45 billion from rates, with the balance from user charges, service fees, licenses and returns on investments. This income is used to pay for all of the services we deliver to Aucklanders.

What is council's current debt?

The council group's net debt is currently $6.1 billion. While that sounds large, it is less than two times our annual income. This is a bit like having a mortgage; only household mortgage debt is often 4.5 times a household's income. We only use debt to pay for new assets that will last for a long time, like buildings, community facilities or trains. This is because it is fairer to spread the cost over the generations who will use the assets, rather than collect the money off one group of ratepayers.

Investing in transforming Auckland

Since Auckland Council was created in November 2010, a diverse range of improvement projects have been completed that have begun to change the face of Auckland. These include:

- opening the new environmentally sustainable Wellsford Library and beginning work on six new libraries
- upgrading Massey Park stadium and pool
- rolling out an integrated public transport fare system
- reopening the refurbished ASB Theatre
- opening North Wharf and Silo Park at Wynyard Quarter
- delivering the first electric trains which started carrying passengers in 2014
- improvements to water supply in Pukekohe

- adding six new dedicated cycle routes
- creating four new artificial pitches that have increased playing capacity by 234 hours each year
- Auckland Manukau Eastern Transport Initiative (AMETI) - $177m invested over last three years
- opening the Merchant Quarter and McCrae Way shared space in New Lynn
- refurbishing the Tepid Baths.

Capital expenditure programme for 2014/2015

For the 2014/2015 financial year we plan to maintain our momentum by investing $1.15 billion in new and improved assets. Combined with $525 million to restore and replace existing assets, our total planned capital expenditure programme for 2014/2015 is $1.7 billion.

Key projects for 2014/2015

Investment in lifestyle and culture

- More than $30 million to acquire new parks
- More than $80 million to invest in local and sports parks
- $14.5 million for the Ōtāhuhu swimming pool
- $5 million for the commencement of construction of the Albany swimming pool

Investment in transport

- Complete delivery and introduction into service of 57 EMUs at a cost in 2014/15 of $215 million
- $70 million to progress the CRL
- Continuation of the AMETI programme to improve access to and from the East
- Begin construction of the $37 million Albany Highway Upgrade
- Completion of the $20 million Manukau Bus Interchange
- Commence construction of the $13 million Otahuhu bus interchange

Investment in water supply and sewerage

- $51 million for the Hunua No4 Water Supply Scheme
- $51 million to expand the treated water network
- $54 million to expand and improve the wastewater collection system
- $19 million to expand wastewater treatment

Investment in developing local communities

- $23 million to progress the development of new libraries at Massey North, Te Atatu Peninsula, Devonport, Flatbush, and Ōtāhuhu
- $13 million to purchase library books and other collection items

Investment in drainage and flood protection

- $70 million investment in the stormwater management programme, including new infrastructure to support Special Housing Areas
- $16 million investment in the flood alleviation programme

Investment in developing the Auckland economy

- $12 million to upgrade public spaces in the CBD, including Federal Street and Freyberg Square
- $16 million to develop public infrastructure at Wynyard Quarter
- $18 million to upgrade town centres, including New Lynn, Westgate, Māngere, Mt Albert and Pukekohe

Investment to protect and support the region

- $8 million for environmental and heritage protection
- $6.5 million investment in refuse and recycling infrastructure
- $77 million capital investment by Ports of Auckland
- $18 million to develop new core computer systems to enhance the efficient delivery of council functions

Paying for this investment

The $525 million it will cost during 2014/2015 to restore and replace existing assets (such as transport, water, wastewater and stormwater assets) is primarily paid for by rates.

The $1.15 billion investment in new assets is primarily paid for by borrowing, so that we can spread this cost over time. We consider this to be the fairest and most appropriate approach because these assets will provide benefits for people over a long period of time. Without the ability to use debt in this way, the council would have to choose between significantly higher rates or a significant reduction in new assets and services.

To ensure that we are using debt wisely, we monitor our borrowing levels relative to our income and the value of our assets. By June 2015 the value of council assets will grow to $40.6 billion and debt will increase to $7.2 billion.

Some of the key things we do to ensure that our use of debt remains prudent and sustainable include:

Ensuring that higher interest bills in the future are affordable for ratepayers	We prepare audited 10-year financial plans that demonstrate our debt levels can be managed without the need for unsustainable increases in rates or user charges. We have also set prudential debt limits and we ensure that debt levels remain within those limits over a 10-year period.
Protecting ourselves from rising interest rates	In a similar way to how you might fix your mortgage, we protect the council from rises in interest rates by using fixed interest rates and interest rate hedging instruments. To a large extent, this locks in council's future borrowing cost.
Ensuring that we are not too dependent on financial markets	We ensure that we always have sufficient cash, liquid investments and committed lines of credit available to allow us to pay our bills for at least six months. We make sure that we borrow from a range of domestic and international lenders so that a problem with any one source of borrowings does not have too large an impact.

Operating budgets for delivering services in 2014/2015

Auckland Council continues to deliver the diverse range of services provided by the former councils, with a focus on providing these more efficiently and tailored to address Auckland's future growth.

Our road network covers **7,200km** – laid out end-to-end, would stretch from Auckland to Invercargill and back three times.

Our **2,800** local parks, **240** sports fields and **40** regional parks cover **100,000** hectares – 10 times the area of Waiheke Island

Every day, we pick up more than **500** tonnes of general waste and **350** tonnes of recyclables

The operating cost to deliver these services in 2014/2015 is projected to be **$3.3 billion**.

2014/2015 gross operating expenditure for Auckland Council Group	$000
Transport	1,009,942
Lifestyle and culture	529,953
Water supply and wastewater	505,818
Built and natural environment	261,204
Community	192,289
Commercial and investment	178,488
Economic development	159,060
Corporate support	115,900
Solid waste	107,330

Stormwater and flood protection	101,622
Planning	69,596
Governance	55,652
Total operating expenditure	**3,286,854**

Paying for these services

Rates provide approximately 45 per cent of the council’s operating revenue with the rest coming from grants, subsidies, development and financial contributions, user charges and fees.

We set rates at the level required to balance our budgets after:

1. maximising efficiency savings
2. ensuring we recover a fair and appropriate amount of our costs through user charges.