Local Government Sector
COVID-19 Financial Implications

Report 3 – Comparison of 2020 annual plan budgets against long-term plans

Local Government COVID-19 Response Unit

August 2020
Contents

Foreword .......................................................................................................................... 3
Snapshot .......................................................................................................................... 3
Approach ....................................................................................................................... 4
Non-rates revenue ......................................................................................................... 6
  Fees and charges ........................................................................................................ 6
  Subsidy income .......................................................................................................... 6
  Development contributions ....................................................................................... 7
  Investment Income .................................................................................................... 8
  Conclusions on non-rate revenue ............................................................................. 8
Operating expenditure ................................................................................................. 9
Capital expenditure ...................................................................................................... 9
Debt ............................................................................................................................... 10
Rates ............................................................................................................................. 10
Balancing the Budget ................................................................................................. 11
Auckland ....................................................................................................................... 11
Themes ......................................................................................................................... 14
Conclusion ................................................................................................................... 16
Foreword

1. Two previous reports in April 2020 tried to assess the likely financial impact of the COVID-19 pandemic on council finances at a time of extreme uncertainty. The aim was to assist with recovery planning.

2. This report examines the decisions local authorities have made in their annual plans for the 2020/21 financial year (the 2020 plans) to get a clearer picture of what the assessed financial impacts on councils are expected to be and how they have responded.

3. Compiling this information is important to provide an evidence base for ongoing conversations about the role of local government in the macro-economic environment over the coming year. Much of this conversation is currently anecdotal.

4. A key issue is how local authorities have managed three competing tensions:
   4.1 loss of revenue from non-rate sources as a result of lower investment returns and reduced economic activity leading to reduced fees and charges income;
   4.2 pressure to contain or lower rates in the face of some households and businesses in their communities facing economic hardship; and
   4.3 the desire to maintain local employment and infrastructure investment as part of the whole of government response to the pandemic.

5. Each local authority expects to be subject to these pressures in different ways and the budgets they have adopted respond in different ways.

6. How they dealt with these tensions in their 2020 plans will also have been influenced by their response to the initial financial impacts of the pandemic during the 2019/20 financial year. Until audited annual reports for that year are available, a clear assessment of that is not possible, but there is early evidence that one response was for local authorities to borrow to make up for income shortfalls. The Local Government Funding Agency advises that in the 2019/20 financial year it borrowed $2.9 billion on behalf of local authorities, when it has historically borrowed about $1.6 billion annually.

Snapshot

7. The 2020 plans show councils expecting quite varied impacts from the pandemic on their communities. Some councils with significant exposure to the tourist industry (notably Queenstown-Lakes and Hurunui) expect significant negative impacts on their operations. Others expecting to be significantly negatively affected tend to be the large urban councils where the broader recessionary effects of the pandemic are most likely to be felt. Most councils with rurally-based economies generally expect much less impact on their activities.

8. Auckland Council in particular faces greater challenges than many. With non-rate revenue forecast at 77 per cent of the long-term plan forecast only Hurunui and Queenstown-Lakes have budgeted for a proportionately greater loss in revenue than Auckland. The Council also has to accommodate a substantial additional capital investment in water supply infrastructure because of drought and it has less debt headroom than almost all other councils. This combination of factors placed the Council in a situation with fewer options than most councils and has compelled a tighter approach to expenditure than others have chosen. Despite this, it has maintained a capital expenditure programme of a similar size to that planned in its long-term plan, but with a significantly different composition.

9. In relation to the three tensions identified in the foreword, while councils have in some cases reduced rate increases from those originally planned, few have adopted zero or very low rate increases. Instead many councils have made greater provision for targeted rate relief for those ratepayers suffering hardship. Councils have also generally maintained existing levels of service with planned expenditure and have maintained or increased capital investment programmes.

10. The major financial response has been for councils to substantially increase their planned borrowing programmes or in some cases to use existing reserves of working capital to maintain expenditure in the face of reduced income. While a few high growth councils are nearing debt limits, most councils have significant borrowing capacity available and are using some of that capacity to help get through this period.

11. Of course, whether councils are able to deliver these budgets depends on our collective success in containing further outbreaks of the COVID-19 virus. As the August 2020 resurgence and events overseas have shown, it is difficult to control the spread of the virus.

12. Overall, the annual plans are consistent with the Government’s desire to maintain economic activity and avoid large-scale service reductions with consequent job losses. Capital works programmes are larger than previously forecast in long-term plans, which aligns with the Government’s aim to use infrastructure investment to help reduce the adverse economic effects of the pandemic.

Approach

13. DIA captures a comprehensive set of council forecast data from long-term plans. The most recent long-term plans cover the period 2018/21. We have taken the 2020/21 long-term plan forecasts as the base case and compared the 2020 annual plan budgets with the long-term plan budget for the same year. Implicit in this approach is that all variations can be attributed to the consequences of the pandemic, which is clearly not the case. There are always minor variations between long-term plans and annual budgets. We are satisfied that the impact of the pandemic is so significant, however, that it in almost all cases it overrides other factors influencing changes.

14. We acknowledge that some councils were considering plans to increase their expenditure substantially above the long-term plan forecast to start addressing shortfalls in infrastructure investment. The plans finally adopted may be close to the

---

2 Either self-imposed or Local Government Funding Agency net debt to revenue covenants.
original long-term plan as councils have delayed those additional investment plans as part of their pandemic response. To try and capture the key points in the story behind the numbers, we have also reviewed the Mayor and/or chief executive summaries contained in the annual plan.

15. Our approach focuses on:

15.1 non rates revenue, respectively – investment income, fees and charges, development and financial contributions, and subsidy income;

15.2 operating expenditure, respectively finance costs, and other direct costs (staff, contractors and grants);

15.3 capital expenditure;

15.4 rates revenue and debt.

16. This ordering roughly reflects the local authority decision-making process, accepting that the process is iterative. Non-rates revenue is largely outside councils’ control, although this year it is affected at the margin by decisions to lower or remit charges such as property rents because of the impact of COVID-19. Operating and capital expenditure then reflect the service levels councils choose to provide to their communities, and the whole has to be funded from a combination of rates and debt.

17. While local authorities are required to disclose budgets for water, wastewater, stormwater, roading and flood protection in their long-term plans, they are not required to provide budgets for individual activities in their annual plans. Many do, but not all. We have analysed this data to the degree that it is available to us.

18. Given the size of Auckland Council, we have analysed it separately from all other local authorities. Auckland is one case where another significant factor is influencing the council’s budget. In Auckland, the need to respond to drought has led to a significant reprioritisation of capital expenditure to improve resilience of the city’s water supply.

19. Treating Auckland separately also gives a more nuanced picture of how local authorities outside Auckland have been impacted by the pandemic and how they have responded.

20. The scale of disruption caused by the pandemic also disturbed council planning processes. Some councils were compelled to delay their processes or consult again on changed annual plan proposals. At the time of writing, two councils – Napier and Kaikoura – were yet to adopt their annual plan for this year and have been excluded from the analysis. Other’s haven’t formally published their annual plans, in which case we have relied upon council agenda reports for our data. In some cases, the reports do not contain the complete data that would be published in the final annual plan.

21. We have also excluded the Chatham Islands Council as it is a special case, being almost exclusively dependent on Crown funding for its operations.

22. Finally, while data capture for this exercise is highly automated, we cannot entirely eliminate the risk of data capture errors. We are confident that any errors are likely to be minor and that the aggregate trends described are accurate.
Non-rates revenue

Fees and charges

Context
23. Local authority fees and charges come from two sources. One is voluntary customer transactions – for example, bus and train fares, swimming pool entry fees, parking charges, and property rentals. The other is regulatory charges – building and resource consent fees and licensing fees.

24. The first source can be influenced by demand. For example, if some people continue to work from home, then public transport demand will be reduced. Property rentals may be influenced by rent concessions councils have agreed with their tenants and at least some councils have waived sports ground charges because of the difficulties sports clubs have been reported to have obtaining sponsorship and gaming income.

25. Regulatory charges can be influenced by reduced economic activity generally. If one consequence of the COVID-19 pandemic is a reduction in building and subdivision activity, that will be reflected in reduced council income.

Analysis
26. Our analysis showed that most regional councils expect their fees and charges revenue to be largely unaffected by the pandemic. Greater Wellington Regional Council accounts for about 45 per cent of all regional council fees and charges revenue and is budgeting for increased fees and charges revenue compared to its long-term plan.

27. The expectations of territorial authorities are quite varied. Of the 61 territorial authorities we have data for, in total they are budgeting for fees and charges revenue that is only 93 per cent of their aggregate long-term budget, a shortfall of $85 million. However, the expected reductions are concentrated in 25 councils. This is unsurprising for those with a significant exposure to tourism – Hurunui, Queenstown-Lakes, Rotorua, and Taupo. For others, - Christchurch, Dunedin, Hamilton, New Plymouth, Tauranga, Whangarei - it appears to reflect a judgement about the broader negative impact of the pandemic on local economies.

Subsidy income

Context
28. Historically, almost all subsidy income received by local authorities comes from Waka Kotahi – the New Zealand Transport Agency. More recently, local authorities have been able to access subsidies through the Provincial Growth Fund, some tourism funds, and most recently through Government assistance to finance shovel-ready projects.

29. Local authorities have been concerned that potential reductions in Waka Kotahi’s revenue from road user charges and fuel tax could flow through to local authority subsidies. In addition, those local authorities that provide public transport services are at risk of having to make up shortfalls in fare income arising from reduced public
transport usage. As at the end of June 2020, Auckland public transport usage was only 67.5% of the previous year, Wellington’s weekly bus patronage was 89.4% of last year, and Christchurch’s weekly bus patronage was 74.6% of last year.

30. On 22 July it was reported that Waka Kotahi has guaranteed regional councils (including Auckland Council and other unitary authorities) that it will cover any fall in passenger transport fare revenues or increase in operating costs through to the end of December 2020. However, that advice would have been received too late to be reflected in most regional council budgets.

Analysis

31. Few councils are budgeting for reduced subsidy income, and many are budgeting for subsidy income much larger than their long-term plan forecasts. Seventeen are budgeting for subsidy income more than 50 per cent greater than their long-term plans. Some of this may relate to timing, with projects deferred from the previous year, and some may relate to additional funding from sources such as the Provincial Growth Fund. Six councils are budgeting for subsidy income of less than 90 per cent of the long-term plan forecast. This seems most likely to relate to decisions by councils to defer particular projects, rather than to any reduction in available subsidies.

32. Of the 74 local authorities we have data for, the aggregate budgeted subsidy income is $1.275 billion compared to a long-term plan budget of $0.976 billion.

Development contributions

Context

33. Development contributions are charges applied by some councils to developments (e.g. subdivisions and buildings) to meet the capital cost of infrastructure provided by the council to enable development to proceed. This income is some of the least predictable for councils as it is almost entirely outside their control and mostly determined by the pace of private sector development and subdivision. Councils therefore tend to budget this item conservatively. Prior to this year, actual development contributions for many high growth councils tended to exceed budget because of the high levels of development occurring.

Analysis

34. Regional councils are not able to charge development contributions and some low growth territorial authorities either choose not to or are unable to meet the statutory tests to justify development contributions. Across the 50 local authorities we have good data for, development contribution income is budgeted at $199m compared to long-term plan budgets of $228m. However, significant budget reductions are concentrated in three councils – Hamilton, Queenstown-Lakes, and Tauranga. Outside

---

3 This includes both the growth related capital expenditure and interest on debt used to initially finance that expenditure.

4 Western Bay of Plenty District Council uses financial contributions under the RMA for a similar purpose. This data includes budgeted financial contributions for that council.
these three councils, reduced development contribution revenue appears not to be a major factor in council planning.

**Investment Income**

**Context**

35. Some councils, for example New Plymouth, have substantial investment funds resulting from past asset sales. They have tended to use these funds to offset rates. Others have large shareholdings, for example in port companies or airports that would normally pay dividends to their shareholders. We expect that, faced with uncertainty, councils would budget for low returns on their investments this year.

**Analysis**

36. While the majority of councils are reporting expected investment income to be less than the long-term plan budget, in most cases the reductions are immaterial. Four councils – Christchurch, Hawkes Bay Regional Council, New Plymouth District Council and Northland Regional Council – are projecting substantial shortfalls. In Christchurch’s case, the expected reduction in revenue is $41 million.

37. In aggregate, the reduction is from $324m to $228m across the 74 council’s we have comparative data for.

**Conclusions on non-rate revenue**

38. Taken in the round, while most forms of non-rate revenue are budgeted at less than long-term plan level, these reductions are to a large degree offset by the additional subsidy revenue councils are budgeting for. However, the effect of revenue reductions is not evenly distributed across all councils.

39. Among regional councils, Hawkes Bay is budgeting for non-rate revenue of only 82 per cent of its long-term plan forecast.

40. Among territorial authorities, six (Christchurch, Gore, Hamilton, Hurunui, Queenstown-Lakes, and Tauranga) are budgeting for non-rate revenue to be less than 80 per cent of their long-term plan forecast. Another five (Carterton, Clutha, Kapiti Coast, Manawatu, and Taupo) are budgeting for non-rate revenue between 80 per cent and 90 per cent of their long-term plan forecast. Seven (Ashburton, Otorohanga, Palmerston North, Thames-Coromandel, Waimate, Wellington and Whangarei) are budgeting for non-rate revenue between 90 and 95 per cent of their long-term plan forecasts.

41. It appears that those councils with more rurally-based economies expect to be largely unaffected, while larger urban councils and those with a strong tourism element in their local economies are much less optimistic.
Operating expenditure

Context

42. Council operating expenditure includes debt servicing costs (finance costs), payments to suppliers and employees for services, and grants (typically to community groups). Grants are such a small portion of expenditure that we do not record it separately but combine it with payments to employees and suppliers.

Analysis

43. Finance costs are a product of two factors – the amount of council debt outstanding and the interest rate applicable. Since the 2018 long-term plans were prepared interest rates have fallen. Councils also often carry less debt than forecast as they rarely fully complete capital expenditure programmes within expected timeframes, reducing borrowing needs. Consequently, we are not surprised that councils are budgeting less for finance costs than the long-term plans forecast - $373m budgeted compared to $508 million forecast for 74 councils. For Christchurch, Hamilton, Tauranga and Wellington City the projected reductions are substantial.

44. We have not attempted to split the remainder of councils operating expenditure into its components, as councils disclose components in different ways. We have compared total operating expenditure excluding depreciation (operating outgoings) between long-term plan forecasts and annual plan budgets. This figure includes finance costs, which have been discussed above.

45. Most councils are budgeting for operating outgoings at or above long-term plan projections. Out of 74 councils we found 14 where budgeted operating outgoings were less than their long-term plan forecast. For most the budget reduction was small. Three councils had significant reductions in operating budgets – Christchurch, Hurunui and Rangitikei, with Hurunui making the biggest proportionate reduction in its budget.

Capital expenditure

Context

46. Superficially, deferral of capital expenditure is one easy way to reduce expenditure. Most capital expenditure is externally contracted, so deferral typically does not have implications for staff redundancies. It is also likely that impacts on service levels are not immediately visible, so deferral of capital expenditure is unlikely to generate ratepayer concerns that operating expenditure cuts might.

47. While councils are required to disclose detailed budgets for five infrastructure services (roading, water supply, wastewater treatment and disposal, stormwater drainage, and flood protection) in long-term plans, this is not a requirement for annual plans. Some councils disclose this information voluntarily. Where available, we have analysed capital expenditure plans for these activities.

48. Key concerns are that council’s deferring capital expenditure may (a) be counter to the Government’s desire for infrastructure investment to support the economy throughout a difficult period and (b) exacerbate existing problems with these services.
**Analysis**

49. We found no evidence of significant reductions in capital works programs. Of 73 councils we had comparable data for, budgeted capital expenditure was $4.300 billion, compared to forecast expenditure in long-term plans of $3.475 billion. Just 9 councils budgeted for less capital expenditure than was forecast in their long-term plan. Most councils remain committed to investing to meet the needs of their communities.

50. To the extent that data was available, we found the same pattern when we looked at expenditure on roads and three waters. For roads we had comparable data from 42 councils, showing budgeted expenditure of $547 million compared to long-term plan forecasts of $449 million. For three waters, for 43 councils, budgeted expenditure is $787 million compared to long-term plan forecasts of $577 million.

**Debt**

**Context**

51. Typically, council debt levels are below those forecast in their long-term plan statements of financial position. This arises because development contributions have been exceeding budgets and are applied to debt reduction, and because council capital works programmes typically lag behind budgets, resulting in a reduced need for debt below original forecasts. For that reason, we have relied on comparisons in the change of debt position for the year, rather than relying on comparisons of forecast debt levels.

**Analysis**

52. Councils plan to raise significantly more debt than originally planned in 2021. Across 74 councils, budgeted additional borrowing is $1.975 billion, compared to long-term plan forecasts of $1.315 billion. Sixteen councils plan less borrowing than their long-term plan forecasts. Christchurch City stands out with planned borrowing reduced by almost $100 million.

**Rates**

**Context**

53. When the pandemic first struck in New Zealand, there was a flurry of public pressure for councils to keep rates down to assist those ratepayers suffering financial hardship as a result of the outbreak. Many councils reviewed plans for significant rates increases and consulted their communities on options to keep rates increases down.

54. Apart from generalised attempts to contain rate increases, councils also considered more targeted assistance, such as more generous remission and postponement policies, and lower rates penalties than permitted by statute.

**Analysis**

55. In aggregate, 74 councils have budgeted for $4.835 billion in rates income compared to long-term plan forecasts of $4.881 billion. Forty-nine councils have budgeted for less...
rates income than was forecast in their long-term plans in 2021. Councils with budgeted rates income at 95% or less than their long-term plans include Hawkes Bay and Waikato Regional Councils, and Horowhenua, Marlborough, South Waikato, Tauranga, Upper Hutt and Waimate district/city councils.

Balancing the Budget

Context

56. The Local Government Act 2002 requires councils to budget for a balanced budget but permits them to depart from that requirement if they resolve it is financially prudent to do so. The local government financial prudence benchmarks provide an operational measure of the degree to which councils are balancing their budget. Some councils have reported managing the tensions created by the current situation by operating with an unbalanced budget in 2021, acknowledging this is not sustainable in the long-term.

Analysis

57. Regional councils in particular have resorted to unbalanced budgets in 2020. Our analysis shows that 3 regional councils had unbalanced budgets in their long-term plans, but 8 have shown unbalanced budgets in their annual plans. Of the 61 territorial authorities we have data for, 17 had unbalanced budgets in their long-term plans, but 25 have budgeted for unbalanced budgets in their annual plans.

58. Another way of looking at this is to compare the projected degree to which the budget was balanced in the long-term plan compared to the annual plan. For territorial authorities, 31 of 59 report a lower operating result in the 2021 annual plan than in the long-term plan forecast for the year.

Auckland

Context

59. Auckland Council (the Council) adopted its emergency budget for the 2020/21 financial year on 30 June 2020. In addition to the problems caused by the pandemic, Auckland is dealing with a major drought, potentially affecting the reliability of its water supply.

60. Our analysis of the Council’s situation follows the same structure as for the rest of the sector overall. Because of the Council’s unusual structure, with major services delivered by council-controlled organisations (CCOs), we have used its group financial forecasts. It should be noted that these will also include forecasts for Ports of Auckland. In the overall scheme, Ports of Auckland is a minor part of the council’s operation.

Fees and Charges

61. The Council is budgeting for fees and charges revenue to be $310 million less than the long-term plan forecast. It attributes this to a variety of factors:
61.1 reduced private sector development leading to a reduction in building and resource consenting revenue;
61.2 reduced use of community facilities and services such as pools, leisure centres, holiday parks and community facilities;
61.3 reduced revenue for Regional Facilities Auckland due to restrictions on shows, events and facilities and lack of public appetite for mass gatherings;
61.4 reduced public transport, parking and enforcement revenues; and
61.5 reduced ports revenue due to reduced shipping volumes.

Subsidy income

62. The council is budgeting for additional subsidy income of $83 million. The main reason for the additional subsidy is expected compensation from Waka Kotahi for the land required to complete the Mill Rd and Penlink projects. Waka Kotahi took over these projects late in 2019/2020 as part of the New Zealand upgrade programme. The additional subsidy income is partly offset by reduced capital expenditure for transport resulting in lower capital subsidies from Waka Kotahi. The Council’s budget includes Government funding for four shovel-ready projects which had been approved at the time the plan was adopted.\(^5\)

Development contributions

63. The council is budgeting for development contributions to be $136 million, $170 million less than the long-term plan forecast of $306 million. The Council attributes this to three factors:
63.1 development activity being lower than forecast before the pandemic occurred;
63.2 a change in timing of payments under a new development contributions policy; and
63.3 the further impact of COVID-19 on economic activity.

Investment income

64. The Council is budgeting for finance revenue (interest on cash holdings) to be $6 million less than the long-term plan forecast. It is budgeting for a reduction in divided revenue of $54 million reflecting an expectation of little or no dividends from its shareholding in Auckland International Airport.

Non-rate revenue overall

65. Overall, the Council’s non-rate revenue is $462 million less than the long-term plan forecast, which is 15 percent less than forecast. To make up that shortfall exclusively from rates would have required the council to further increase rates by approximately 23 per cent.

---

\(^5\) The projects are the Puhinui interchange; Stage 1 of the Ferry Basin Redevelopment; Northwestern bus improvements and Te Whau pathway.
**Operating outgoings**

66. Overall, operating outgoings are budgeted to be $84 million above the long-term plan forecast of $3.309 billion. The Council identifies the following factors influencing this:

66.1 the incorporation of a new subsidiary for Watercare to manage water services provided for Waikato District Council, the cost of which is offset by revenue from that contract;

66.2 increased public transport services responding to pre-COVID-19 demand;

66.3 increased regional facilities costs; and

66.4 costs relating to staging the America’s cup; and

66.5 increased recycling processing costs.

67. The overall increase is despite a reduction in finance costs of $110 million from the long-term plan forecast, attributable to lower than expected interest rates.

68. In order to achieve this outcome, the Council will make operating cost savings of $200 million. To achieve this, the Council expects potential job losses of another 500 full-time equivalent permanent staff as well as reductions in the use of consultants.

**Capital expenditure**

69. The Council is planning to invest $2.567 billion in capital expenditure, of which $1.152 billion is on transport and $0.828 billion is on the three waters. This is greater than the long-term plan forecast of $2.515 billion.

70. In addition to deferring some capital expenditure because of income shortfalls, the Council has had to reprioritise expenditure because of the need to invest in water supply assets to improve the resilience of its water supply to the current drought. The Council has identified $224 million in additional capital expenditure to enhance its water supply capability. It has reduced planned capital expenditure for transport from $1.290 billion to $1.142 billion. This includes about $100 million of work that did not proceed in 2019/20 and will now fall into 2020/21.

**Asset recycling**

71. One way to fund capital expenditure is to sell other assets no longer regarded as necessary to provide council services. The Council has lifted its asset recycling budget for 2020/21 from $24 million to $244 million to assist in continuing to fund its capital programme.

**Debt**

72. The Council is already, by New Zealand standards, relatively highly indebted because of the large capital expenditure programme it has been funding for many years. The Council has covenanted debt limits with the Local Government Funding Agency, from which a portion of its borrowing comes, and it is conscious that a downgrading in its credit rating as a consequence of increasing its debt would increase the interest rate it

---

6 The council has already terminated the employment of more than 600 temporary and contract workers.
pays on its debt. Its current financial strategy is to limit debt to 270 per cent of revenue. The Council’s annual plan provides for its debt to revenue ratio to temporarily lift to 290 per cent, returning to 270 per cent in the 2021/22 financial year.

73. It’s budgeted debt level at the end of 2021 is $11.038 billion compared to its long-term plan forecast of $10.656 billion. It plans a net increase in debt for the year of $909 million, compared to the long-term plan forecast of an increase of $712 million in debt.

Use of cash reserves
74. A large council like Auckland will always keep financial reserves on hand for unexpected expenditure. The council plans to use a lot of those reserves in 2020/21, running them down from $289 million to $100 million.

Rates
75. The Council had originally planned a 3.5 per cent rates rise this year. In its plan consultation, it also put forward a 2.5 per cent rates rise option. In the end it proceeded with the 3.5 per cent rise but provided $50 million to allow ratepayers suffering hardship to defer rates payments without being penalised. It also suspended its accommodation provider targeted rate with it resuming only for the last quarter of the financial year.

76. The Council’s budgeted rate income for the year is $1.976 billion, which is $11 million more than the long-term plan forecast of $1.976 billion.

77. With non-rate revenue forecast at 77 per cent of the long-term plan forecast only Hurunui and Queenstown-Lakes have budgeted for a proportionately greater loss in revenue than Auckland. The Council also has to accommodate a substantial additional capital investment in water supply infrastructure because of drought and has less debt headroom than almost all other councils. This combination of factors placed the Council in a situation with fewer options than most councils and has compelled a tighter approach to expenditure than others have chosen.

Themes
78. In addition to the financial analysis, we have reviewed the narrative statements in each annual plan (usually in the form of a mayoral or chief executive’s report). These provide explanations of each council’s story – how it has responded to the situation confronting it. In this section we have summarised the key themes and messages that emerged from those narratives, as they add a richness that cannot be obtained from the financial data alone.

Councils worked to provide relief to their communities financially impacted by COVID-19
79. Councils recognised that their communities had been financially impacted by COVID-19 and the focus of the annual plans was to provide relief to their communities and support the recovery of local economies.

80. Most councils had sought to minimise rates increases in their 2020/2021 annual plans in order to reduce the financial burden on ratepayers impacted by COVID-19. Councils
reported public support for zero or lower rates increases from consultation on draft annual plans.

81. Prior to the Alert Level 4 lockdown, many draft annual plans signalled rates increase higher than forecast for their long-term plan. This was due to costs pressures from faster than anticipated growth and increased depreciation and regulatory costs. In addition, some councils were already responding to the impacts of drought and floods on their communities.

82. A few councils decided not to increase total rates in response to submissions and the financial impact of COVID-19 on ratepayers. Two councils approved an average rates decrease from 2019/2020.

83. However, most councils did not approve a zero rates increase because they considered they could not do so without reducing essential services and/or work on critical infrastructure. Furthermore, councils recognised that a zero rates increase this year would mean higher costs and much larger rates increases in following years.

84. Councils’ annual plans included a range of other initiatives to provide relief and support economic recovery including rates relief for ratepayers in financial hardship, reduced fees and charges for services and rent relief for tenants of council buildings, and funding for community organisations. Recovery initiatives included support for local businesses through promotional ‘buy local’ and domestic tourism campaigns. Some Councils established special funds for recovery initiatives.

**Councils’ income has been significantly reduced by COVID-19**

85. As a result of COVID-19, councils’ annual plans forecast lower rates income. In addition to councils setting lower rates increases, councils also expected higher non-payment from ratepayers.

86. Councils also projected lower non-rates revenue, revenue that is often used to subsidise rates income. Councils lost income from fees and charges during lockdown and expect this to continue into 2020/2021 due to reduced economic activity and some continued restrictions. For example, Councils are anticipating fewer consent applications due to less building activity. Southland Regional Council and Northland Regional councils’ annual plans projected no fees from cruise ships this financial year due to border restrictions (this was previously a significant revenue source).

87. Councils are also forecasting less income from investment funds and council owned organisations. In particular, council owned tourism related businesses are projected to provide significantly less or no income to councils. For example, Hurunui District Council lost a significant source income from its Hanmer Springs Thermal Pools and Spa Complex, falling from $3.4 million to $64,000 this year. Councils that have ownership in airports are expecting no dividends this year.

**Councils balanced reduced revenue with the need to maintain service levels and support recovery initiatives**

88. Although projecting reduced revenues, most Councils recognised that they still need to maintain essential services for their communities and support the recovery of their local economies.
89. In order to meet shortfalls in revenue, most Councils reviewed budgets to identify potential savings. Most councils reduced staff costs, for example by freezing wages/salaries, delaying promotions and new hirings, or reducing staff travel and training.

90. Councils often used reserves or borrowings to ensure they could continue to deliver services and infrastructure projects, as well as funding recovery initiatives. Councils also noted that lower interest rates had helped lower costs. Some Councils also reduced borrowing costs by reducing debt repayment plans.

91. Some councils’ annual plans noted that strong balance sheets had allowed them to manage the financial impacts of COVID-19. Others also benefitted from increased subsidies and grants from central government.

**Most councils continued with their planned capital works programmes**

92. Most councils continued with planned capital works programmes. Councils considered that it was necessary to continue investing in their assets to stimulate the economic recovery by providing jobs and support for local businesses. Councils also recognised that they needed to upgrade infrastructure, in particular water infrastructure, in response to ongoing growth, deterioration of assets, earthquake strengthening, and/or damage from flooding.

93. Some councils increased the size of their capital works programme compared to their long-term plans by carrying over projects not completed in 2019/2020 or bringing forward planned projects.

94. A few councils deferred projects that they considered non-essential to save costs. Wellington City Council noted that its $65 million of carry forward capex from 2019/2020, partly due to lockdown, would unlikely be completed in 2020/2021 on top the significant capex programme already planned.

**Conclusion**

95. The expected financial impacts of the pandemic do not fall evenly among councils. Some councils with a high dependence on tourism anticipate significant financial effects on their budgets, notably Queenstown-Lakes and Hurunui. Others expecting significant financial effects tend to be the major centres like Auckland and Christchurch, which are New Zealand’s gateways to the world and where major economic activity is concentrated.

96. Generally councils have attempted to reconcile the competing tensions of falls in non-rate revenue, a desire to keep rates down in a time of economic stress and a desire to support local economies by borrowing more than planned and using some of their working capital reserves.

97. Overall, the council plans are consistent with the Government’s desire to maintain economic activity and avoid large-scale service reductions with consequent job losses. Also, capital works programmes are larger than previously forecast in long-term plans, which aligns with the Government’s aim to use infrastructure investment to help reduce the adverse economic effects of the pandemic.