Appendix: Q+A About An Alternative Budget, and Further Options

Q+A

Q: We're in difficult economic times. Isn't it right for the Council to tighten its belts?
A: It is not unusual for governments to run budget deficits, especially in difficult economic times. This may be the time to boost investment. In a different context, recent analysis by Canadian economists of British Columbia's budget said: "Deficits are entirely appropriate with an economic slowdown underway. They are also far preferable to inadequate investment in critical public services and infrastructure, which leads to its own kind of deficits – social and environmental ... An eventual return to budget balance should come via increased revenue ..."[1]

Q: Is it illegal for the Council to run a deficit?
A: Section 100(1) of the Local Government Act 2002 generally requires local authorities to run balanced budgets. However, s 100(2) provides for an exception: a deficit can be run "if the local authority resolves that it is financially prudent to do so", having regard to the expenses of maintaining services set out in the long term plan, the revenue available to fund expenses, equitable allocation of responsibility for funding assets and facilities, and the local authority's own policies (including on revenue and financing).[2] It would be eminently possible for Auckland Council to resolve that it is financially prudent to run a one-off deficit: the costs of restructuring CCOs and services may themselves be imprudent; the loss of assets may increase the debt-to-asset ratio, pulling away from financial prudence; and projected revenues may suggest that it is prudent for the deficit to be borne for a single year as revenues come back ontrack. A budget deficit would therefore be lawful.

Q: Won't the Council be penalised by credit rating agencies if it doesn't cut spending?
A: No, not necessarily. A one-off budget deficit or one-off decision to borrow more would not necessarily result in a major downgrade, especially if accompanied by sound rationales. Credit rating agencies would acknowledge that the last year has been unusual for Auckland. Existing ratings are some of the highest in New Zealand, with Standard & Poor's rating Auckland Council AA and Moody's rating Auckland Council Aa2. A one-off deficit or one-off decision to borrow more would not be fatal to Auckland's sound position in the eyes of rating agencies.

Q: If the Council runs a deficit or borrows more now, won't it just run deficits in perpetuity, or borrow more forever?
A: No. A credible plan is needed to boost revenue, which might include a discussion of tourism, community, and services policy. At the moment, cuts to tourism spending are likely to undermine revenue in future. Revenues have been steady in recent years. Auckland needs investment, not cuts, to return greater revenues to the Council.

Q: Isn't it true that the Council can't borrow more than $140m?
A: The proposed budget suggests that if borrowing exceeds $140m it would breach

[1] https://www.policynote.ca/budget-2023/.
[2] See https://www.legislation.govt.nz/act/public/2002/0084/latest/DLM172357.html.

Auckland Council's policy. But it is not clear what policy would be violated by this. Auckland Council is far below its debt-to-revenue ceiling of 290%: the Budget consultation document says borrowing is at around 250% of revenue at present.[3] The debt ceiling is self-imposed (and was described as "idiotic" by Sense Partners economist Shamubeel Eaqub in 2020)[4] but could still be safely avoided by a one-off borrowing plan to address the shortfall. If an internal policy is breached, such as other self-imposed prudential limits, these might be adjusted (there will already be a need to adjust policy if the Council pursues a sale of shares in Auckland airport).

Q: On the Water Quality and Natural Environment Targeted Rates, isn't it a good idea for the Council to pause these rates since it has reserves and pausing these reserves can soften the rates impact on people during a cost of living crisis?
A: No. It is true that the Council has "reserves" from these targeted rates: revenue from these rates has been under-spent. But the long-term plan included maintaining these rates. Reducing these rates when others face devastating cuts is not in the interests of Aucklanders. And now, after climate-induced floods and a cyclone, is not the time to cut revenue to water quality and the natural environment.

Further Options

This Alternative Budget for Tāmaki Makaurau Auckland suggests increasing borrowing to just over $150 million, unfreezing two targeted rates, and maintaining the general rates package that is currently in the Budget. This would avoid cuts and privatisation of Auckland airport. But there are also further budget options. Another budget is possible, and cuts are not inevitable: the Council is making political choices.

One further option is for **the Council to seek central government support**. This past year has been extraordinary for Auckland: Auckland has been especially affected by the floods, was hit hard by COVID-19, and was impacted by the cost of living crisis. An injection of support from the Government (even if only of $50-100m) may lead to a call from other councils (for example, Napier's) for support. But Auckland is a special case. The Government could make it very clear that this support is a one-off.

Another option is **to establish new targeted rates** to boost revenue. Council could be asked to review options urgently, such as greater tourist charges.

It is also open to the Council, under s 100 of the Local Government Act 2002, to **run a budget deficit** if it would be financially imprudent to insist on balancing the books, taking into account needs in the long-term plan and other factors. It may well be financially imprudent to incur restructuring costs and deplete community assets.

A further option is **increasing general rates** a little more than is currently proposed. Rates are relatively low in Auckland, and other cities are facing higher rates jumps: Wellington is facing a rates rise of almost 13%.[5] This may justify a slightly greater contribution from home-owners to maintain community services and public assets.

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3 https://www.aucklandcouncil.govt.nz/externalcontentdelivery/consultations/budgets/annual-budget-2023-2024/annual-budget-2023-2024-consultation-document.pdf at page 49.
4 See https://www.newsroom.co.nz/councils-could-breach-idiotic-debt-cap.
5 https://www.rnz.co.nz/news/national/483889/wellington-ratepayers-facing-nearly-13-percent-hike#:~:text=Wellington%20homeowners%20are%20facing%20a,and%208%20percent%20last%20year.