Local Authority Indicative Financial Impact Tool August 2021 - What do the numbers represent?

Te Tari Taiwhenua Internal Affairs

Local Authority Financial Impact Tool

Please select local authority and scenario from the drop down lists:

Please select local authority

LTP

LTP status:
Assumed transfer date: 30 June 2024

1. Assumptions
2. Instructions
3. Inputs
4. Charts

Summary

A With transfer, the Lending and Foundation Policy covenant change in compliance is as follows:

> Lending Policy - no change in compliance
> Foundation Policy - no change in compliance

B The financial information is presented exclusive of any Government support package.

With transfer, the indicative change in Please select local authority's debt headroom is: $-

2 **Better off package:**
From the $2bn 'better off' package, the following support package has been allocated to Please select local authority: $-

No worse off package:
From the $500m 'no worse off package' and subject to detailed due diligence, indicative

3 **Stranded cost** (indicative allocation): $-

4 **Financial sustainability** (indicative allocation): $-

Click here for further details on the support package

C With transfer, Please select local authority's indicative credit rating will change by 0 notches

D With transfer, the Balanced Budget benchmark and Debt Servicing benchmark change in compliance as follows:

> Balanced Budget - no change in compliance
> Debt Servicing - no change in compliance

A Local Government Funding Agency (LGFA)

Net Debt to Total Revenue Financial Covenant

Foundation Policy Covenant:
Estimated number of breaches above the dashed line:
> With Transfer - 0
0

Lending Policy Covenant:
Estimated number of breaches above the dashed line:
> With Transfer - 0
> Without Transfer - 0

* High level LTP data has been applied to the LGFA methodology. Actual results will depend on individual council circumstances.

B Financial Position

Debt Headroom (FY24) $- change with transfer 1

Debt to Revenue (FY24)

	With Transfer	Without Transfer	Three Waters
Debt	$-	$-	$-
Revenue	$-	$-	$-
Debt to Revenue	0%	0%	

C Overall Indicative Credit Rating Impact

Based on Standard & Poor's methodology*

No change

0 notches

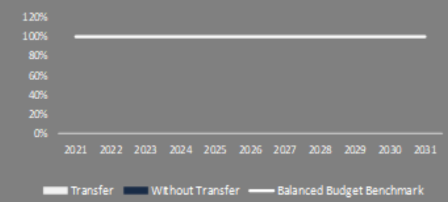
This assessment is based on:

> No change in the Budgetary Performance assessment
> No change in the Debt Burden assessment
> No change in the Economy, Financial Management and Liquidity assessments which are assumed to remain consistent

***Please note:** A high level application of **Standard & Poor's rating** methodology has been applied to all local authorities as a proxy. In practice, local authorities may be rated by other rating agencies or unrated.

D Prudential Benchmarks

Balanced Budget



Balanced Budget:
Estimated number of breaches below the white line:
> With Transfer - 0
> Without Transfer - 0

Debt Servicing

Debt Servicing:
Estimated number of breaches above the 15% dashed line:
> With Transfer - 0
> Without Transfer - 0

Disclaimer

The analysis contained within this Financial Impact Tool is indicative and based on information and estimates trends that local authorities supplied or published as part of the Long Term Planning and Request for Information processes, and has not been subject to validation or audit. It does not reflect Standard and Poor's actual credit rating assessments, confirmed Local Government Funding Agency financial covenants nor Prudential benchmarks.

Any additional work to accurately estimate financial impacts and determine what support could be provided to local authorities will likely require further work with each local authority, including but not limited to a potential due diligence process that will determine matters like debt and revenue on a robust and nationally consistent basis.

1. Indicative change in Debt headroom

The debt to revenue ratio is a critical metric used by local authorities, rating agencies, and the Local Government Funding Agency for assessing financial sustainability. The indicative change in debt headroom reflects the impact on this ratio for each local authority before and after transfer of the three waters assets. The analysis focuses on the ratio at 30 June 2024, the proposed transfer date.

The change in debt to maintain a council's debt to revenue ratio is referred to as the "debt headroom". Where debt headroom is positive, this means the debt to revenue ratio improves due to the transfer. Where debt headroom is negative, this means the debt to revenue ratio gets worse due to the transfer.[1]

We note this analysis is indicative only and is subject to confirmation of asset, debt and revenues at the point of transfer which, if the reforms proceed as proposed, will be confirmed through a due diligence process to be conducted during the transition period.

2. Better off package:

This figure represents the initial allocation from the $2 billion announced by the Government on July 15 to ensure all local authorities are better off following reform.

It has been allocated to local authorities using a nationally consistent formula based on population size (75%), deprivation index (20%) and land area, excluding national parks (5%).

3. Stranded cost (indicative allocation).

The Government has also committed an estimated $500m to ensure no councils are left worse off following reform. This funding is applied in two ways – to cover stranded costs and to ensure financial sustainability and will be subject to detailed due diligence.

The stranded cost allocation is as follows:

- $150m allocated to councils (excluding Auckland, Christchurch and Councils involved in Wellington Water) based on a nationwide estimate of two years unavoidable stranded costs. Allocated on a per capita basis, adjusted to recognise that smaller councils will face disproportionately greater potential stranded costs.
- For Auckland, Christchurch, and councils involved in Wellington Water – the total package of up to $50m is displayed in the model. The actual allocation will be based on a detailed assessment of reasonable and unavoidable stranded costs.

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[1] The debt headroom is calculated as: revenue after transfer (ie excluding revenue related to three water assets) times the debt to revenue ratio before transfer less debt after transfer (ie excluding debt related to three water assets).

- $50m is allocated for those councils that have demonstrable, unavoidable and materially greater stranded costs.

4. Financial Sustainability (indicative allocation)

This number reflects the Government's commitment to ensure that no Council is worse off in terms of any adverse impact on its borrowing programme. For those Councils potentially affected this is shown in the model in terms of making good any loss of debt headroom (shown as the negative number in box B).