

Economic Policy Centre

Pensions and Intergenerational Equity

PIE Commentary 2023-03¹

How should the Auckland City Council think about its investment in Auckland International Airport?

By Terry Baucher

PIE highlights intergenerational equity issues around funding models for state and local government. Mayor Wayne Brown has claimed that the Council's investment in Auckland International Airport Limited (AIAL) is a "lousy investment for debt-burdened ratepayers." But does the current 'fiscal crisis' require the sale of council's 18% share in AIAL or is would that be, as Terry Baucher argues, "a very short-sighted response to what is a temporary shortfall."

We republish this commentary by Terry Baucher, tax consultant and policy commentator, with thanks to the New Zealand Herald.²

Auckland Airport and the future of Auckland

Auckland Airport has become a centrepiece of debates about Auckland Council's next budget. But, amid claims of a fiscal crisis and the need for cuts, there's a need to step back and take stock if the Council is to make decisions that are properly based on evidence.

In particular, we need to take a harder look at Mayor Wayne Brown's claim that the Council's investment in Auckland International Airport Limited (AIAL) is a "lousy investment for debt-burdened ratepayers". In my view the claim doesn't stack up.

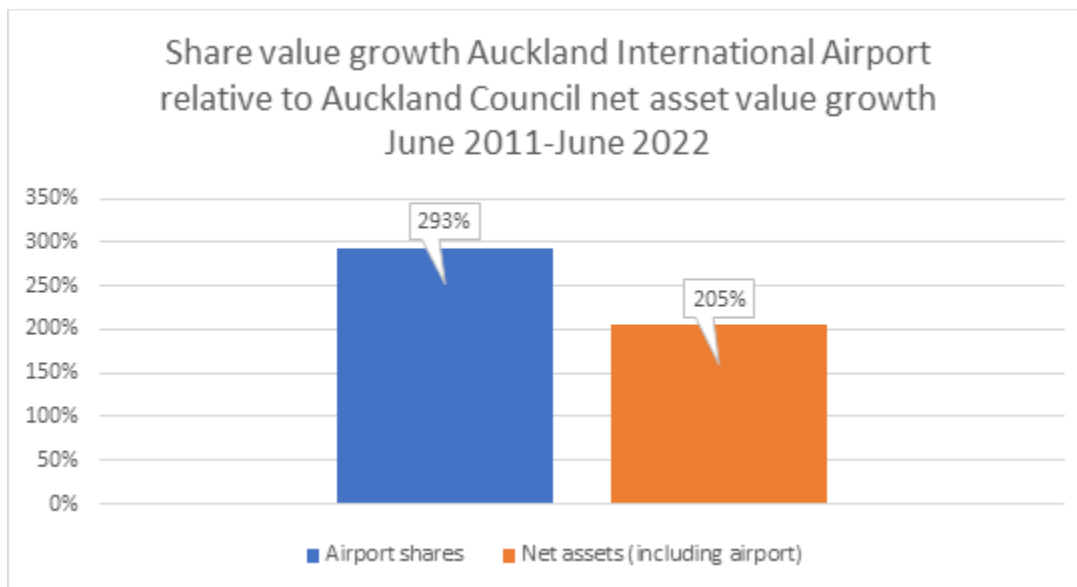
In making his case for the sale of the airport shares the Mayor focuses on the lack of dividends since the COVID-19 pandemic began. AIAL suspended its dividend as a temporary response to an unprecedented event. Prior to the pandemic, between 2011 and 2019 dividends per share grew from 8.7 cents per share to 22.25 cents per share, a 155% increase and well ahead of inflation.

AIAL is expected to resume paying dividends later this year. The Council's own projections have dividend income rising from an estimated \$38.9 million in 2023/24 to \$79.2 million in 2030/31, an increase of 103% also likely to be well ahead of inflation.

Dividends are only part of the return on investment. Between June 2011 and June 2022, the value of the Council's stake in AIAL increased by 293%. By comparison the Council's net asset value (including its AIAL stake) rose by 205%.

¹ PIE Commentaries are opinion pieces published as contributions to public debate, and do not necessarily reflect the view of the Pensions and Intergenerational Equity Hub.

² Published NZH 1st May 2023



The share price has continued to recover and at the time of writing is \$8.65 meaning the value of the Council's stake in AIAL is 16% higher than the price of \$7.46 used for the Budget documents.

The opportunity cost of selling is therefore not the cost of debt which could be retired but the future growth in what the Council's budget documents acknowledge is "a key piece of strategic infrastructure for the region and the country". Even the Mayor accepts the airport is a strategic asset. A sale of an interest in a strategic asset would be a very short-sighted response to what is a temporary shortfall.

I believe managing strategic assets is a key responsibility for any asset-owning public entity and a valid criticism would be that the Council has not done this well. As a key shareholder in AIAL the Council should be leveraging its stake to ensure better returns and protect this strategic asset. It could start by ensuring a Council representative is appointed to AIAL's board of directors.

The sale of the airport shares is not the only short-term fix the Mayor suggests. The budget proposes temporarily reducing the Natural Environment Targeted Rate (NETR) and Water Quality Targeted Rate (WQTR) on the basis that there are \$53 million reserves built up which can be used for other funding.

These targeted rates fund vital long-term initiatives and raiding the reserves is deplorably short-sighted. As the council's own budget documents acknowledge doing so "will mean higher overall rates increases in 2024/2025 than would otherwise be the case." Robbing the future to pay for now is the very exemplar of poor financial management.

If the Mayor believes there is a crisis, solutions such as selling strategic assets, suspending rate rises and raiding reserves are short term fixes. The problems will still need to be addressed in future years.

However, like [India Logan-Riley and the group "A Better Budget for Auckland"](#), I do not accept the Council's finances are in dire straits. Based on the information provided as part of the Budget consultation, as of 30 June the Council will have net assets of \$49.283 billion with short and long-term borrowings of \$12.077 billion. This is a debt-asset ratio of just 24.5%.

The projected finance expenditure for the June 2023 year is \$505 million or just 8.1% of the projected income of \$6.252 billion. By any normal accounting measure – interest cover and debt to asset ratio, the Council is in a strong position.

Instead of short-term measures of dubious quality, the Mayor and the Council should be lobbying for a change in debt management rules to better reflect commercial practice for an organisation of its size. This is imperative if our city is to meet the coming demands of population growth and climate change.

Professor Paul Spoonley of Massey University has estimated that 49.3% of New Zealand's population growth over the past 20 years happened in Auckland. That surge put enormous pressure on infrastructure and housing which we are still dealing with.

Now, according to the OECD's Indicators of Talent Attractiveness index, New Zealand is currently the most desirable destination for highly educated migrant workers. Quite apart from immigrants, we will also continue to see Auckland attract people from elsewhere in the country.

Preparing to meet this combination of rapid demographic and climate change means Auckland needs to invest heavily in infrastructure and housing. The present budget with its short-term fixes does nothing to meet those demands.

Time to think again Mayor.

Comments welcome to
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