

Mayoral Proposal for the Annual Budget 2019/2020

29 November 2018

Earlier this year, Auckland Council set the 'Build-it Budget' which delivers the largest ever investment into Auckland's infrastructure over the next 10 years. We laid the foundations with a record \$26 billion investment in areas that matter the most to our community - transport, housing and the environment. We made bold decisions around how to fund the infrastructure this region badly needs and introduced the regional fuel tax to fund better transport options for people. We introduced targeted rates for programmes that will improve our water quality and preserve our beautiful natural environment.

With record levels of funding secured, this annual budget allows us to crack on with the work needed to make Auckland a world class city.

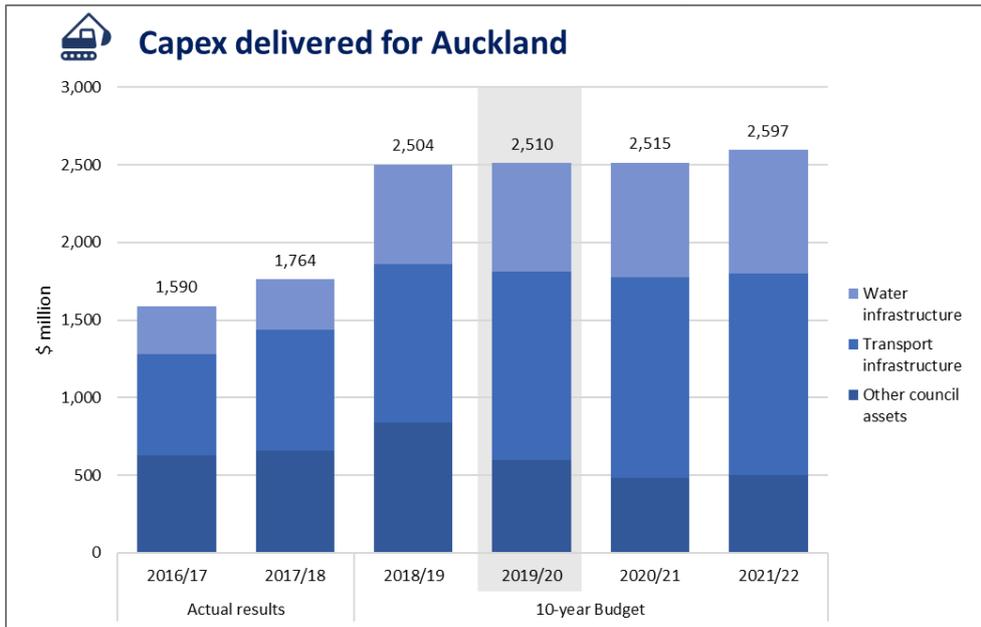
We need to use the revenue we have raised through the water quality and natural environment targeted rates and the regional fuel tax to deliver projects that make a positive and critical change to our region. It is more important than ever before that the council group works effectively and collaboratively together to deliver the substantial programme of works.

While we must deliver on our built environment we are also taking care of Aucklanders. We should be proud of the fact that on 1 September 2019 the Auckland Council group will complete the implementation of its living wage policy. Council has a responsibility towards its lower paid employees to ensure they have a fair wage that can support them and their families to meet the costs of living in Auckland.

Summary of the Annual Budget 2019/2020

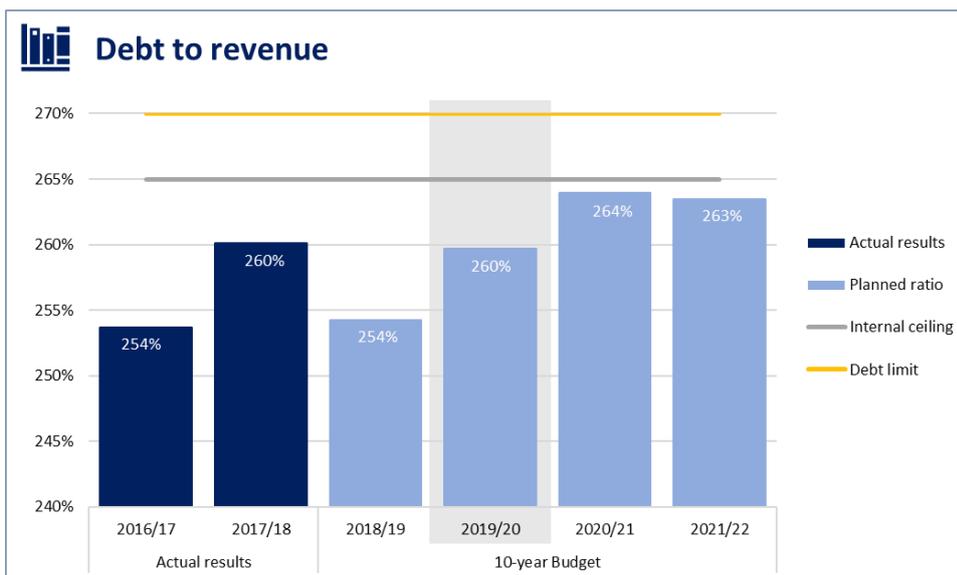
- Average general rates rise limited to 2.5%
- \$5 million proposed council contribution to the City Mission's Home Ground project
- Record capital investment of over \$2.5 billion, including the largest ever transport investment of \$1.2 billion
- All council staff paid a living wage from 1 September 2019
- Progressing the water quality improvement programme to clean up our beaches and streams
- Protecting our kauri and managing pests through actions funded by the Natural Environment Targeted Rate
- \$200,000 proposed continued funding to deal with illegal dumping
- An additional annual operating savings target of \$23 million bringing the savings achieved this term to 4%, with estimated cumulative savings of around \$560 million over a decade.

Record capital investment of over \$2.5 billion is budgeted for 2019/2020:



Our financial context

There has been success in diversifying council’s revenue sources to reduce our reliance on rates. Non-rates revenue sources have increased by \$286 million, or 15%, from 2017/2018 to 2019/2020. However, Auckland Council continues to operate in a constrained financial environment. Our capital commitments to the council’s largest ever infrastructure projects (City Rail Link and central interceptor) will put pressure on our debt limits in the coming years. It is therefore critical at this time that council does not commit to further projects, unless there are identified sources of funding for them.



Building better transport options

We are aiming to provide better transport options for Aucklanders by ramping up the delivery of our substantial capital programme. Capital investment in the regional's transport infrastructure will be a record \$1.2 billion. It will help deliver for Auckland a modern, efficient and safer transport system capable of dealing with our rapid population growth, that shifts people into alternative modes of transport to deal with increasing road congestion and makes our roads safer for all users and pedestrians.

The council will receive funding of around \$150 million from the regional fuel tax in 2019/2020 which is critical to addressing our transport infrastructure needs. It enables key projects and safety initiatives to be delivered more quickly, and to implement projects that would otherwise not have been possible

Key transport projects being advanced/delivered in the 2019/2020 year:	
Regionally significant	<ul style="list-style-type: none"> • Road safety improvements including intersection upgrades, speed limit reductions, traffic calming, traffic light phasing, signage and road markings • City Rail Link • Eastern Busway: Pakuranga bus station and Reeves Road flyover, Panmure to Pakuranga section • Airport access improvements including the new bus/rail interchange and enhanced station at Puhinui • Downtown ferry terminal redevelopment • Downtown transport hubs • New electric trains • Urban cycleways programme: including Glen Innes to Tāmaki; Waitemātā safe routes; Karangahape Road cycleway; Herne Bay to Westhaven • Quay Street sea wall strengthening
Local projects	<ul style="list-style-type: none"> • Mount Wellington highway road corridor improvements including transit lanes and cycleways • Sylvia Park bus improvements • New North Road double-decker bus route works • Lake Road upgrade design • Lincoln Road upgrade detailed design work • Rosedale bus station • Hingaia special housing areas supporting projects • Dairy Flat highway improvements • Ōrākei shared path construction linking to the Glen Innes to Tamaki Drive shared path • Matakana Link Road stage 1 • Wynyard Quarter Road network upgrade • Matiatia park and ride design • Papakura park and ride • Medallion Drive link in Albany

Investing in our communities

We are making progress on addressing Auckland's housing supply and affordability.

Homelessness continues to be a priority issue and funding of \$0.5 million per annum for the Housing First project will continue. Housing First has been successful in housing 700 homeless people in its first 18 months of operation. Auckland City Mission is progressing with their Home Ground project which will create a purpose-built housing and social services facility with housing for those with complex needs, a crisis care facility and detox services among others. Auckland City Mission has been successful to date in raising over \$72 million from central government and private sector sponsors and my proposed contribution of \$5 million will significantly assist towards the target of \$90 million to complete the project.

The City Mission does incredible work with the homeless on behalf of all of us and my challenge to the private sector and wider community is to join with us to bridge the remaining gap so that this important project can be completed.

Building consents for nearly 13,000 residential units have been approved in the calendar year to date. This is a 27% increase on the same period in 2017 and trend indicators are for continued growth in consent numbers. New consenting is happening largely within Auckland's urban boundaries, a sign of the success of the Unitary Plan in creating a more compact city.

The record consent numbers, along with new funding mechanisms to deliver infrastructure and collaboration with government on the Auckland Housing Programme and Kiwibuild are examples of progressing the recommendations made by Mayoral Housing Taskforce I convened at the beginning of the mayoral term. We are continuing to pursue changes from central government to amend the Building Act and Building Code to facilitate innovation and respond to the move towards more multi-unit construction. We are also seeking to more fairly share liability for faulty construction with designers and builders rather than council facing all of the costs as the last person standing.

Auckland Council's cooperation with central government continues to strengthen. Earlier in the month, we announced a partnership with Crown Infrastructure Partners in Wainui to accelerate the building of bulk infrastructure that will enable the construction of 9,000 houses. This investment will take place over the coming few years.

The 10-year Budget created a clear funding arrangement for Panuku's urban regeneration work in the identified "Transform" and "Unlock" areas. In the 2019/2020 year there will be significant progress in Manukau, Takapuna, Henderson, Onehunga, Panmure and Avondale as various developments commence. Council will continue to work with communities, outside Panuku programmes, to revitalise and enhance suburban town centres. Council, along with Local Boards, plays a vital role in investing in placemaking and building stronger communities.

A cleaner environment

In the 2019 planting season we will plant the millionth tree during the Matariki planting week to achieve the target of my Million Trees programme. This helps green and beautify our city, helps build a carbon sink to absorb emissions and stabilises land to prevent siltation of our rivers and harbours.

Aucklanders pride ourselves on the love we have for our natural environment. Illegal dumping has been a growing blight on our communities. To tackle this, we renewed our efforts to tackle illegal roadside dumping. In February, we announced funding of \$200,000 to address illegal dumping through measures such as installation of security cameras and notices. We have succeeded in lifting the rate of infringement fines for dumping and secured a number of important prosecutions.

We will continue to work with government and local communities to build on the progress we have made so far. To this end, I propose that additional funding of \$200,000 be continued in the Annual Budget 2019/2020. This will enable us to continue to hold people to account where their irresponsible behaviour leaves costs on the ratepayers.

In the coming year, we need to refocus our efforts on waste minimisation in the areas of construction and demolition. Industrial and commercial waste constitutes around 80% of what goes to landfill. Council needs to work with the private sector and with central government to minimise waste and maximise recycling. This will be a key focus in the 2019/2020 year.

Water Quality

The water quality targeted rate will raise around \$42 million in the 2019/2020 year to continue the work into a major improvement in the quality of Auckland's beaches and streams over the next decade. We aim, for example, to reduce wastewater overflows into our streams and beaches by up to 90% in the next decade, twenty years ahead of our original target. Next year's outcomes will be delivered through five key work programmes, all of which will be progressed in the 2019/2020 year:

- Western isthmus water quality improvement programme (St Mary's Bay and Daldy Street)
- Contaminant reduction programme (including Glen Innes)
- Urban and rural stream rehabilitation programme (including Hōteō sediment reduction programme and water quality partnership works in Clevedon/Wairoa, Kaipara/Kumeu and Papakura)
- Septic tank and onsite wastewater education and compliance programme (including Waitākere, Waiheke, Franklin, Rodney and other coastal communities)
- Safe networks programme (including Takapuna Beach and Red Beach)

The targeted rate work programmes will over time greatly improve water quality in our harbours and reduce Safeswim warnings at our recreational beaches across urban Auckland. Long-term public health warnings at four sites in the Manukau Harbour, some of which have been in place for nearly twenty years, have recently been lifted.

The successful Safeswim programme is set to expand from 92 monitored swimming sites to over 140 sites by the end of the 2018/2019 summer season and to over 200 by November 2019. Auckland is the first city in New Zealand to provide real time information about the quality of water where it's safe to swim and a mechanism to monitor improvement as we invest to reduce contamination.

Natural environment

The natural environment targeted rate will raise around \$30 million in the 2019/2020 year to continue work to tackle kauri dieback and on other ecological restoration programmes. Highlights of work already achieved through the targeted rate include expanded Kauri dieback control, track upgrade work in the Waitakere Ranges so that tracks can be re-opened, and an increase of \$200,000 per year in the Regional Environment and Natural Heritage grant scheme. Te Korowai o Waiheke is an ambitious project with a vision of eradicating pests such as rats and stoats from Waiheke. It will create one of the largest pest-free sanctuaries in the world and is a significant step towards making the Hauraki Gulf islands pest free.

The 2019/2020 programme includes further work to control Kauri dieback with 7000 trees proposed for phosphite treatment in Piha, significant increases in the ecological restoration contracts to achieve best practice pest management in high ecological value Auckland Council parks including increased feral deer, goat and pig controls in Hunua and Waitākere, greater support for community-led conservation and increased investment in biosecurity.

Climate change and coastal assets

Council has already begun work on Coastal Compartment Management Plans funded through the 10-year Budget, which will help prioritise council's response to the effects of climate change to assist coastal asset management planning. These plans will be substantially completed in the 2019/2020 year and will inform a recently established work programme called Resilient Communities, Catchments and Coastlines that looks at how to respond to the future impact of global warming.

A people-friendly city centre and waterfront

We are transforming Auckland's city centre and waterfront, reconnecting people to our shoreline with more public open space – places to sit, walk and talk. There will be more public transport options and pedestrian-friendly streets and open space.

I welcome the unanimous agreement by councillors to move towards pedestrianising Queen Street and other city centre streets and trialling an open streets initiative in the city centre and suburbs. Our city centre produces 20% of Auckland's GDP. With a rapid increase in resident numbers to 57,000 and accelerating employment numbers (118,000) and student numbers as well as major investment in hotels and tourism, the changes proposed in the City Centre Master Plan are both necessary and visionary. It is part of making Auckland a great place to be and a world class city.

Changes to Federal Street will make it more pedestrian-friendly. We can expect a more bike-friendly Karangahape Road with streetscape improvements due for completion in the

2019/2020 year. We will also see the return of Lower Queen Street to public use in the 2019/2020 summer. This will be a superior pedestrian precinct, purpose built for walking, relaxing and public events, and should lead in due course to the wider pedestrianisation of Queen Street.

In the 2019/2020 year, America's Cup progress will be very visible with tanks already being removed from Wynyard Wharf, making way for America's Cup bases and a new waterfront park. We are also making Quay Street a pedestrian-friendly, green, tree-lined boulevard connected to open space at Lower Queen Street and around the ferry terminal.

Culture and sports

The 10-year Budget supported an increased focus on Māori outcomes with \$35 million re-prioritised funding. I expect the resulting Māori responsiveness work programme and re-allocated budget to start delivering outcomes during the 2019/2020 year.

The \$120 million Sport and Recreation Facilities Investment Fund was established as part of the 10-year budget and will start contributing to the improvement of our region's sporting facilities. We will also acquire around \$60 million of land for new parks and open spaces in the 2019/2020 year.

The Cultural Heritage Sector discussion document was released in October and concludes that the funding, governance and accountability arrangements for the institutions predate the amalgamation of Auckland and are no longer fit for purpose. For an investment of over \$80 million a year, it is important that we have a coherent and consistent system of governance and funding that ensures Aucklanders are getting the best outcome. The next stage of the review will involve the council, institutions, mana whenua and stakeholders working together to tackle the issues with a view to identifying and implementing agreed changes to the sector.

Better value for money

We made important decisions last year to create funding streams to tackle a long-standing deficit in infrastructure investment and to get projects underway to deal with growing traffic congestion problems that have been needed for years. I do not propose any changes to the rate settings from those set out in the 10-year Budget. These settings deliver on my commitment to keep rates rises low, despite the continuing growth in the region. Auckland has a rate increase lower than any other metropolitan or growth city in New Zealand.

- Average general rates rise limited to 2.5%
- A matching increase to the Uniform Annual General Charge of 2.5%
- Continuation of the reduction in the business differential
- Regional Fuel Tax no change
- Water Quality Targeted Rate no change
- Natural Environment Targeted Rate no change
- Accommodation Provider Targeted Rate no change. There is a judicial review currently before the High Court.

Other more minor rating changes will be advised by officers.

Alternative financing of infrastructure has progressed with the Crown Infrastructure Partners deal announced earlier this month and I expect further development opportunities to be announced in the 2019/2020 year with likely candidates in the south of the region.

Additional annual operational savings of \$23 million per annum are included in the Annual Budget 2019/2020, contributing to the 5% savings locked into the 10-year budget. This delivers around \$560 million cumulative savings over the next decade.

The Value for Money programme continues with a focus on back office services including delivering on the results of the procurement, IT, customer services, legal and risk, and finance reviews. To date the programme has identified potential benefits of over \$500 million in capital and operating savings across the council group over a ten-year period.

I support the acceleration of innovation in the automation of processes and group shared services, particularly in the areas of procurement, IT and finance and expect that significant progress will be made in the 2019/2020 year.

ENDS

Attachment: Memo from Ross Tucker, General Manager Financial Strategy and Planning

Memo

28 November 2018

To: Mayor Phil Goff
cc: Matthew Walker, Group Chief Financial Officer
From: Ross Tucker, General Manager Financial Strategy and Planning

Subject: Annual Budget 2019/2020

Te take / Purpose

1. To provide advice on the financial planning context and process for the Annual Budget 2019/2020.

Whakarāpopototanga matua / Executive summary

2. The financial year 2019/2020 is the second year of the 10-year Budget (long-term plan) 2018-2028 which was adopted in June 2018. This plan includes an unprecedented \$26 billion level of investment for Auckland alongside notable new initiatives including the acceleration of efforts to improve water quality and a ring-fenced funding to improve our natural environment.
3. The projected expenditure for 2019/2020 within the 10-year Budget includes \$2.5 billion of capital expenditure and \$4.2 billion of operating expenditure. The key funding settings for this year are an average general rates increase of 2.5 per cent and a \$0.7 billion increase in borrowing.

2019/20 \$ billion	Operating expenditure		Capital expenditure	
	10-year Budget		10-year Budget	
Transport		1.5		1.2
Water		0.7		0.7
Parks & Community		0.7		0.3
Centres Development		0.1		0.2
Other		1.2		0.1
Total		4.2		2.5

4. While the projected debt to revenue ratio for 2019/2020 sits at 260 per cent, against an internal ceiling of 265 per cent, the 10-year Budget indicates that this will rise to 264 per cent by the following year meaning the capacity for additional investment is limited.
5. The initial budget for 2019/2020 from the 10-year Budget will be updated throughout the year to reflect any council decisions, updates to project cost or timing projections, and any changes to our significant forecasting assumptions. At this stage these do not present any material change to the 10-year Budget cost, revenue or balance sheet projections.

Horopaki / Context

6. The financial year 2019/2020 is the second year of the 10-year Budget (long-term plan) 2018-2028 which was adopted in June 2018. This plan includes an unprecedented \$26 billion level of investment for Auckland alongside notable new initiatives including the acceleration of efforts to improve water quality and a ring-fenced funding to improve our natural environment.

Tātaritanga me ngā tohutohu / Analysis and advice

Annual Budget 2019/2020 starting point

7. The projected expenditure for 2019/2020 within the 10-year Budget includes \$2.5 billion of capital expenditure and \$4.2 billion of operating expenditure.
8. This investment is planned to be funded from a number of sources including:
 - average general rates increases to existing ratepayers of 2.5 per cent,
 - no changes to targeted rates,
 - user charges at appropriate levels of cost recovery,
 - subsidies from central government to support transport operations and investment,
 - development contributions to recover the costs of growth infrastructure,
 - proceeds from the sale of underutilised assets,
 - \$0.7 billion of additional borrowing.
9. A priority in setting the 10-year Budget was maintaining a sustainable approach to borrowing. This is achieved by setting a limit to our borrowing at 270% of our revenue and an internal target of 265%. These levels ensure we can maintain our strong credit rating and good access to credit markets and competitive interest rates. While the projected debt to revenue ratio for 2019/2020 sits at 260%, the 10-year Budget indicates that this will rise to 264% by the following year meaning the capacity for additional investment above that planned is limited.
10. Charts representing the 2019/2020 budgets included in the 10-year Budget are included in attachment A to this report.

Subsequent decisions

11. Relevant council decisions made since adoption of the 10-year Budget include:
 - the agreement on 17 October to the deferral of capital and operating budgets undelivered in 2017/2018 into 2018/2019 and 2019/2020,
 - acceleration of investment in business transformation and improvement initiatives,
 - accelerating Panuku expenditure to align with America's Cup timing,
 - approval of additional budget for superyacht berthing in Wynyard Basin,
 - future-proofing the CRL project for patronage growth,
 - other decisions made in confidential committee meetings.

12. At this stage updates for the above factors do not present any material change to the 10-year Budget cost, revenue or balance sheet projections. However, capacity for additional investment remains very limited and any substantial new investment would require additional revenue or reprioritisation of the capital programme.

Budget update process

13. Throughout the year council staff will continue to update projections for 2019/2020 to incorporate the effect of any relevant council decisions, updates to project cost or timing projections, and any changes to our significant forecasting assumptions.

14. Council staff regularly review the projected costs and timings of planned investments and operations. These updated projections are incorporated into budget models to ensure decisions are well informed.

15. A key budget update item expected early in 2019 will be on the CRL project. Major contracts for this project are currently out for tender and analysis of the tender documents will provide increased certainty around cost projection. At this stage a decision will also be made as to which future-proofing option is chosen and the related costs will be confirmed.

16. The 10-year Budget included a set of significant forecasting assumptions to support financial projections. These are regularly reviewed to support accurate cost and revenue forecasts. The key items for review include:

- Inflation – reviewed in collaboration with the council's Chief Economist,
- Growth projections – reviewed with the Research and Evaluation Unit,
- Interest rates – confirmed by our Treasury Department.

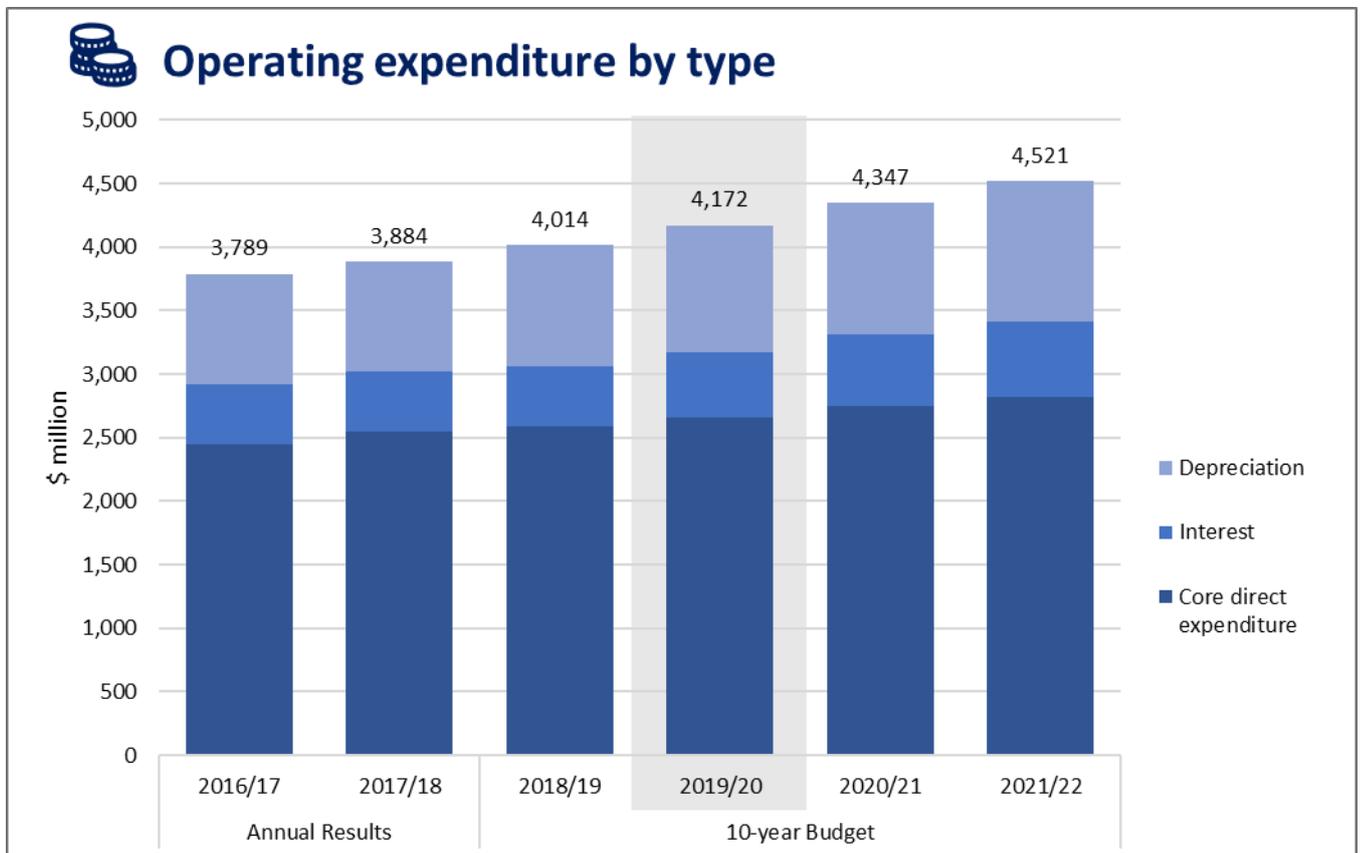
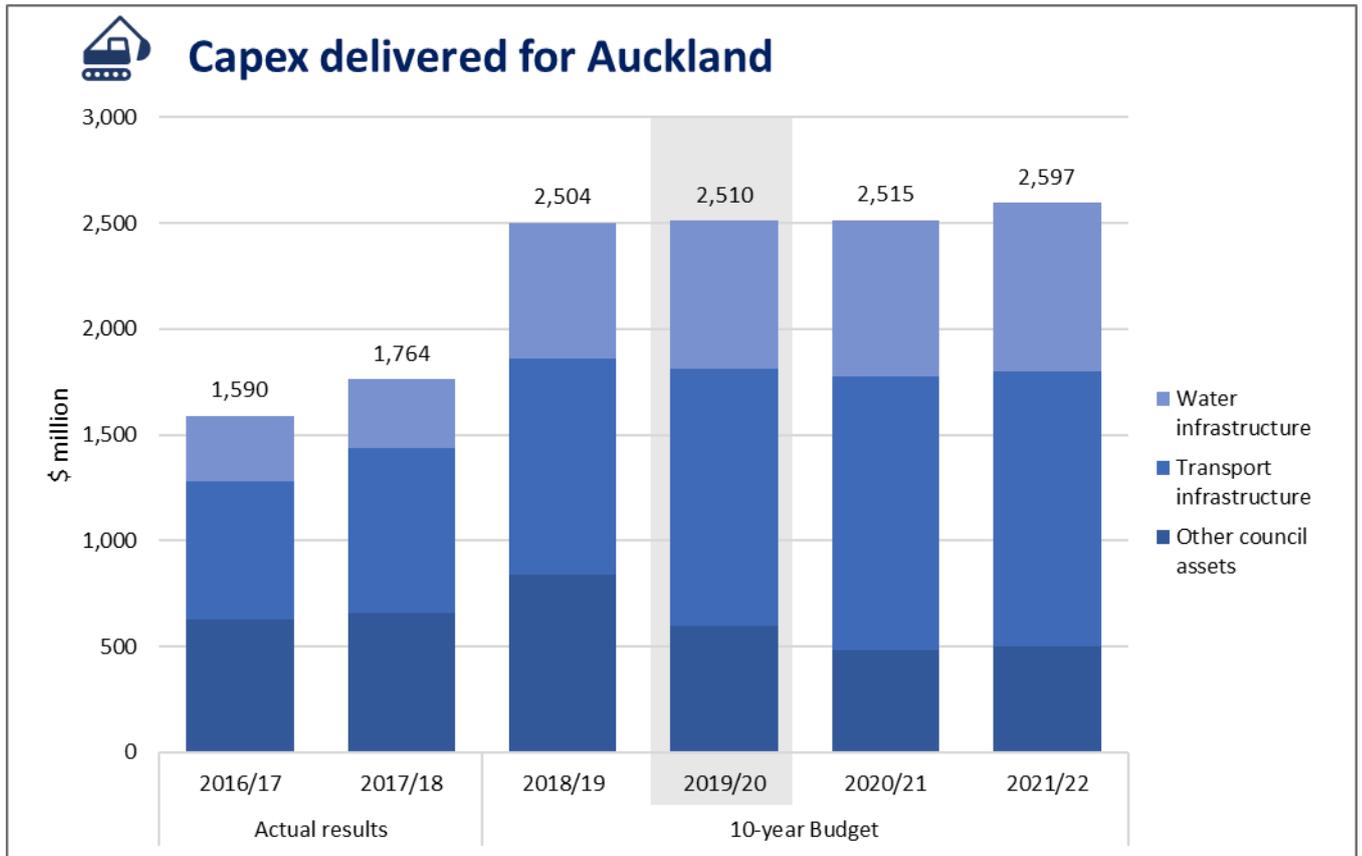
Longer-term financial planning work

17. To respond to the growth challenges Auckland is facing we have identified significant additional infrastructure investment we would make if more funding or financing was available.

18. The recent announcement of the Milldale project with Crown Infrastructure Partners demonstrated a model which enables acceleration of housing development without needing additional borrowing by the council.

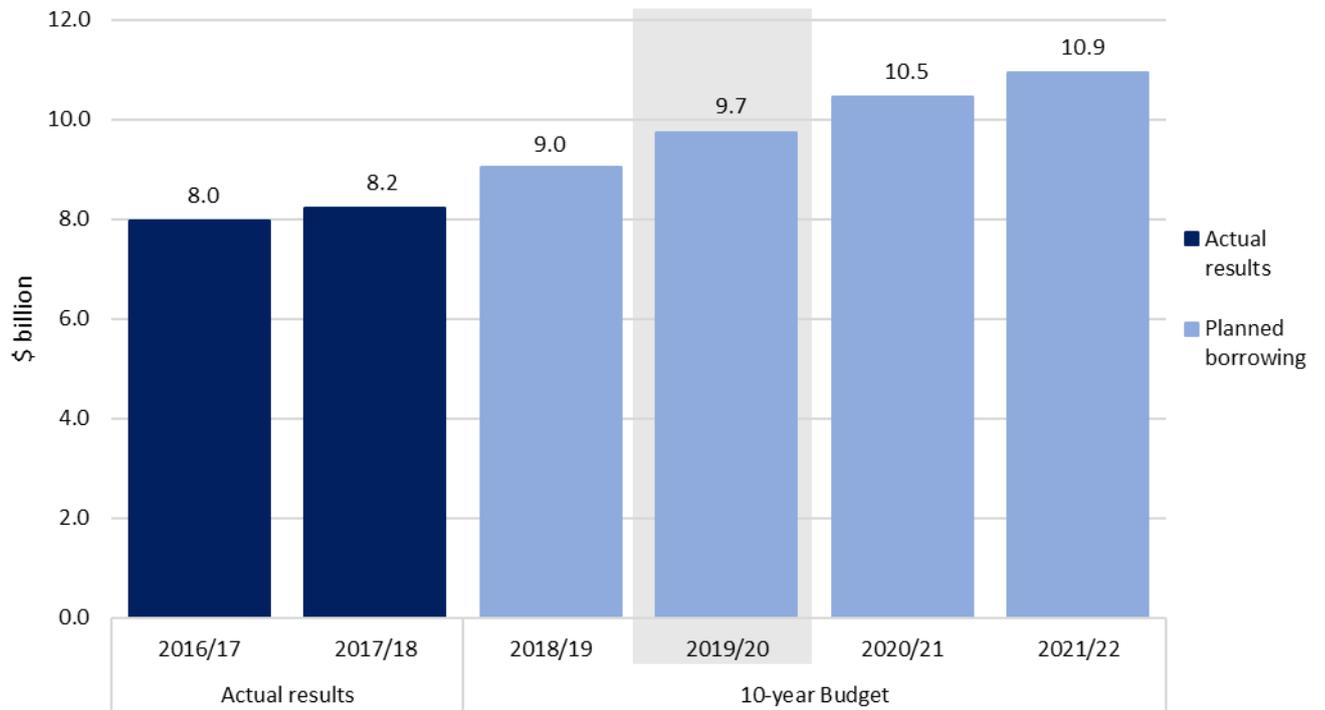
19. Staff continue to work with central government and third-party partners to investigate and evaluate further ways to finance infrastructure to support housing and transport outcomes.

Attachment A: Starting-point budgets for 2019/2020





Net borrowing



Debt to revenue

