

# Draft Annual Budget 2023/2024 – Staff Advice to support Mayoral Proposal

## Purpose

To set out staff advice to inform the Mayoral Proposal for Annual Budget 2023/2024 items to take to public consultation.

## Summary

- Latest assessments of changes in the economic environment and their impacts on the council's cost base indicate ongoing operating budget pressure of \$295 million for 2023/2024.
- Staff have provided advice on the key options for the council to address this, along with associated implications, key considerations, and implementation risks.
- The council will need to consult with the public in early 2023 on the mix of mitigation levers proposed.
- A mix of mitigation levers that balances the need for long-term solutions with implementation risk is required for this annual budget.
- Solutions that provide ongoing benefits, such as revenue growth or permanent cost reduction, best support long-term financial sustainability.
- Temporary solutions may create larger budget challenges for future years.
- Presentation of a range of options to the community for consultation will best support flexibility in decision-making for the final budget, once feedback has been received.
- Direction now on actions that do not require public consultation will reduce implementation timing risk.
- To enable staff to prepare consultation material and conclude any necessary audit reviews, decisions on items for consultation need to be made on 15 December 2022.

## Context

1. The council is required to prepare and adopt an annual plan, or annual budget, for each financial year and it is the role of the mayor to lead the development of the budget.
2. In order to meet its statutory obligations and to enable quality decision-making the council will need to agree on items for consultation for the Annual Budget 2023/2024 on 15 December 2022.
3. Staff will then prepare consultation material for adoption by the Governing Body in February 2023. Any amendments to the long-term plan will also require a detailed proposal which will need to be audited by Audit New Zealand ahead of Governing Body adoption of the consultation material.
4. This budget is being prepared in the context of an uncertain economic environment particularly evidenced by rapidly rising inflation and interest rates.
5. The COVID-19 pandemic and associated monetary injections has been followed by dramatic increases in demand, supply-chain limitations, and a war in Europe as the global economy recovers.

This has led to rapid increases in inflation and monetary responses from reserve banks around the world in the form of interest rate increases.

6. While council staff rely on a number of sources, including Reserve Bank and commercial bank forecasts, to support projections around changes in the prices of the goods and services it procures, these projections have needed to be updated regularly as the pace of change outstrips market expectations.
7. Auckland Council's cost base continues to grow each year, driven not only by inflationary pressure on our cost base but also the costs of owning, maintaining, and operating our growing asset base.
8. Addressing the city's growth and legacy of underinvestment in infrastructure has required significant capital expenditure by the council since amalgamation. This investment, and its consequential impact on operating costs, has historically been funded by a growth in council borrowings (to reflect the intergenerational benefits) supported by operating cost savings and annual increases to general rates above the headline rate of CPI inflation (to cover the growing cost base). Additional operating funding pressure has come from the need to gradually increase the share of depreciation funded from current revenue as we move toward a more sustainable approach for funding asset replacement.
9. Recent dramatic increases in inflation have resulted in the general rates increase falling below the CPI increase. As a rule, this means that the costs of the services we deliver to existing ratepayers are growing faster than the revenues we receive from them. At the same time it is becoming harder to find further cost savings that do not impact on service levels for the community.

## The challenge

10. In its Annual Budget 2022/2023 the council highlighted the changing economic environment and the risks around movements in both inflation and interest rates. Depending on outcomes for these factors the council projected ongoing operating budget pressures for future years to be \$90-\$150 million. The budget also showed how \$90 million of this could be mitigated over the medium term through a package of budget levers, with further levers such as higher rates increases and more service reductions needing to be considered under the \$150 million scenario.
11. On 10 November 2022 staff presented a report ([CP2022/15348](#)) to the Governing Body to update financial projections for the 2023/2024 financial year. This report noted the latest inflation and interest rate results and projections and reported that these factors, along with some other operating pressures had been assessed as creating an estimated operating budget gap of around \$270 million for 2023/2024. This represented \$180 million of additional operating budget mitigations needed for 2023/2024 over and above the \$90 million previously signalled.
12. Following the Governing Body meeting on 10 November a workshop was held with members of the Governing Body where staff provided more detail around the budget context, updated budget projections, an analysis of cost pressures, potential mitigation levers, and budget process requirements. The materials that supported this workshop were subsequently published on the Governing Body [agenda](#) for its meeting of 24 November 2022.
13. The Reserve Bank of New Zealand (RBNZ) released an updated Monetary Policy Statement on 23 November. While the headline increase in the Official Cash Rate (OCR) was in line with market predictions (75 basis points – from 3.5 to 4.25 per cent), the projected peak in OCR was higher than had been expected and the statement also included inflation forecasts that were higher than had

been previously projected. Staff calculated that the impact of these changes would likely be an increase to the total budget challenge of around \$25 million.

14. These new projections lead to a total estimated operating budget gap of \$295 million. This update was verbally reported to the Governing Body meeting on 24 November as part of the Chief Executive, Group Chief Financial Officer and Council-controlled Organisations Update. A summary of the updated projection is attached to this memo as Appendix A.

## Criteria / principles

15. Given the size of the budget challenge a mix of different mitigation levers will be needed as relying on a single lever would likely lead to unacceptable outcomes.
16. In deciding on the mix of levers to respond to the budget challenge it is crucial that the council maintains the confidence of key external stakeholders including investors, credit rating agencies, auditors and central government.
17. Previous advice has recommended the use of the following four criteria to consider the mix of solutions:
  - a. **Credible** – levers should build external stakeholders' confidence in the council's financial management and items for public consultation should only be included if, and to the extent that the council can credibly follow through and realise the financial benefits.
  - b. **Sustainable** – the budget challenge the council faces is unlike that faced through the Emergency Budget where COVID-19 presented a huge temporary reduction in revenue. This challenge is one driven by permanent increases in our cost base and as such the proposed levers need to be ones that provide ongoing mitigation and don't contribute to a bigger budget challenge for next year and the year after.
  - c. **Affordable** – the proposed levers need to avoid unacceptable shocks for ratepayers, both now and in the future. Substantial rates increases for the next year could create affordability challenges for some ratepayers, but other mitigation actions may serve just to delay this impact and may result in larger rates increases within the next couple of years.
  - d. **Implementable** – it is crucial that the financial benefits from the levers are able to be delivered by the beginning of the new financial year on 1 July 2023. Some levers that are more significant or more complex might be more credibly implemented for the following financial year as part of the next Long-term Plan process.

## Making decisions for public consultation

18. The solutions put forward to the public for consultation should be simple, clear, evidence-based and auditable. This will enable the public to provide informed feedback that can support the final decisions for the council.
19. It will be helpful, and perhaps necessary, to agree on one preferred mix of levers, but it is also important to be able to respond to community feedback and be ready to pull different levers, or pull some harder than others, if some aspects of the preferred solution are not acceptable to Aucklanders.

20. As noted above the global economy continues to experience rapid change and this has already led to notable changes in the projected size of our budget challenge. While the \$295 million challenge is based on the best information available at present it may also be prudent for the council to consider through consultation the need for additional flexibility to respond to further economic challenges that may arise.
21. The consultation document provides the public with an indication of the scope of options the council is willing to consider. Any levers that the council decides are out of scope at this stage will not be available when the council comes to make final budget decisions in May/June next year.

### Potential mitigation levers

22. Levers available to the council to mitigate this budget challenge were identified in the Governing Body report and workshop material of 10 November. These included:

- increased debt
- higher increases to general rates
- further asset disposals
- delays to capital expenditure
- increases to non-rates revenue
- central government funding, and
- reductions to operational expenditure (opex).

23. Some of these levers cannot be a large part of the solution to the current budget challenge:

<b>Capital expenditure timing</b>	<ul style="list-style-type: none"><li>• already engaged significantly through previous budgets</li><li>• provides only temporary relief</li></ul>
<b>Government funding</b>	<ul style="list-style-type: none"><li>• significant subsidies already – particularly for transport</li><li>• further opportunities exist but likely to be limited scope for this budget.</li></ul>
<b>Increases to non-rates revenue</b>	<ul style="list-style-type: none"><li>• few opportunities to significantly increase beyond current plans</li></ul>

24. Each of these levers may well be used to some extent as part of this budget, but they are highly unlikely to make a meaningful difference to the \$295 million estimated budget gap.
25. The four key levers that will need to be considered to make up the bulk of the solution are:
- opex reductions
  - rates increases,
  - asset sales (particularly airport shares), and
  - use of debt within our policy parameters.
26. Further advice on these key levers was provided to the Governing Body members in confidential workshops on 16 and 17 November and is summarised, and updated, in appendices to this memo.
27. Any changes relating to strategic assets (such as airport shares) or any proposed significant changes to intended levels of service for a significant council activity would require public consultation via an audited Long-term Plan amendment process. Other significant or material changes from what has been previously planned would simply require consultation via the annual budget process.
28. Some changes do not require public consultation and implementation of those changes could commence immediately.

## Operating expenditure

29. The council group has continued to set and implement savings targets in each annual and long-term planning process. There is an existing savings target of \$90 million per annum for Auckland Council and the Council Controlled Organisations (CCOs) are also managing their own internal savings targets. To help address the \$295 million budget gap using the opex reduction lever, any reductions will need to be over and above the targets already included in the budget.
30. Of the \$90 million savings target for Auckland Council for 2023/2024 \$57 million has already been solutioned, leaving a residual of \$33 million still to be achieved. Auckland Council's chief executive and executive leadership team are actively progressing work to close this gap, including reducing the cost of back-office services and simplifying the organisations management structure. These changes may have some impact on some services to the community.
31. While some capacity for increased efficiency will always exist, operating expenditure is primarily a function of quantity and quality of the services delivered and how those services are delivered. Budget reductions are increasingly impacting service levels and the larger the size of any further reduction, the bigger the service impact is likely to be.
32. Alongside consideration of impacts on service levels it is also important to consider the ability of the organisations to implement the reductions by 1 July 2023 to ensure the proposed mix of levers represents a credible plan.
33. As outlined above, the more significant the impact on services the greater the process requirements are that must be met prior to implementation. Given that final decision-making on this annual budget post consultation will occur in May/June, there is an extremely short timeframe between decision-making and 1 July 2023 when the savings needs to begin to be realised. This means that consulting on wide-ranging and complex changes to council services through this annual budget will create a high degree of implementation risk and such an approach is highly unlikely to be credible.
34. To ensure that the Governing Body is adequately advised on the implications of different choices, staff from across the council group have examined the potential opportunities for reducing operating expenditure, including some of those at the high levels of implementation risk given the short timeframe.
35. With a longer runway the implementation risk will reduce. Therefore, some of the more wide-ranging changes can best be considered via the upcoming Long-term Plan 2024-2034 process.
36. Appendix B outlines these opportunities and their implications for Auckland Council and each CCO, and are summarised in the table below. Savings with higher implementation risks may still be achievable, just over a longer timeframe.

	Savings with low-moderate implementation risk		Further potential savings with high implementation risk	
<b>Auckland Council</b>	\$60m	<ul style="list-style-type: none"> <li>• Reducing some lower priority regional service levels</li> <li>• Reductions to local board funding</li> <li>• Changes to grants and revenue</li> <li>• Simplification and consolidation of group strategy and policy activity</li> </ul>	\$20m	<ul style="list-style-type: none"> <li>• Achieving the full financial benefit of group shared service implementation</li> <li>• Moving to full bulk funding of local boards</li> <li>• Implementation of new models of service delivery</li> </ul>

		<ul style="list-style-type: none"> <li>• Group shared service implementation such as corporate accommodation, fleet, procurement, human resources, health and safety, engagement and communications</li> <li>• Improving consistency of technical expertise and standards across the group</li> </ul>		
<b>Auckland Transport</b>	\$25m	<ul style="list-style-type: none"> <li>• Retaining public transport service at the current (reduced) schedule</li> <li>• Increase public transport fares in line with inflation</li> </ul>	\$25m	<ul style="list-style-type: none"> <li>• Further reducing public transport services by around 20% compared to the current schedule.</li> </ul>
<b>Tātaki Auckland Unlimited</b>	\$27.5m	<ul style="list-style-type: none"> <li>• Reduction in the reliance on rates funding for key services</li> <li>• Introduction of user pays in areas previously not charged (Aucklanders and international visitors)</li> <li>• Minor reductions related to community events</li> </ul>	\$50m	<ul style="list-style-type: none"> <li>• Substantial reduction in economic development and visitor/destination activities</li> </ul>
<b>Eke Panuku</b>	\$5m	<ul style="list-style-type: none"> <li>• Reduced capital investment and opex related to urban regeneration</li> <li>• Reduced corporate and property management costs</li> </ul>	\$15m	<ul style="list-style-type: none"> <li>• Stopping or significantly reducing work on the regeneration of local town centres and the city centre waterfront.</li> </ul>

37. Changes with significant or material service impacts will be part of public consultation and public feedback will be carefully considered before final budget decisions are made. This process will include working with our 21 local boards, particularly on any proposed changes to local community activities acknowledging that regional decisions have local implications. Given the scale of the proposed changes there will inevitably be implications for staff across the council group. Staff impacts will be carefully managed through open and constructive discussion with potentially impacted staff, and with a focus on redeployment and managing staff numbers through attrition where possible.
38. Alongside agreeing to overall targets for consultation the council could look to de-risk the implementation of reductions by identifying specific targets or actions that do not require consultation and agreeing to them now. This would allow council group organisations to begin planning implementation and commencing discussions with staff immediately rather than waiting for final budget decisions in May/June 2023.
39. The key opportunities that could be progressed immediately are noted in Appendix B and include items such as group shared services implementation and the proposed budget changes for Eke Panuku.
40. To support decision-making on these items, along with decision-making on some of the key opex reduction items for public consultation, some fact sheets have been prepared and are included in Appendix E.



## Rates

41. Current budgets assume an average increase to general rates in the 2023/2024 year of 3.5 per cent.
42. If the council were not to take other additional mitigating actions (above those indicated in the Annual Budget 2022/2023) general rates would need to increase by a further 10% to address the increase to the operating challenge which is \$205 million more than the \$90 million signalled in the Annual Budget 2022/2023. This would mean a total average general rates increase of 13.5%.
43. Appendix C includes advice around the potential impacts of general rates increases at 7% and 10% and of making changes to other rates policy settings.
44. Adjustments to rates policy settings for the Long-term Differential Strategy (LTDS) and/or to two targeted rates (the Natural Environment Targeted Rate and Water Quality Targeted Rate) could provide temporary relief to ratepayers in the current year. This could enable the council to raise additional revenue from general rates to mitigate the operating budget challenge while limiting the increase to ratepayers' overall rates bills in 2023/2024.
45. Key considerations around rating options are around sustainability and affordability.
  - The ongoing, and compounding, impacts of rates increases on the council's operating income means they provide a sustainable mitigation against the ongoing nature of the budget challenges currently faced.
  - While temporary policy adjustments may support affordability in the short-term, decision-makers need to consider the impact on the level of charge experienced by ratepayers in the following year.
46. As a general principle, continuing with general rates increases that are significantly below inflation will mean not addressing the underlying issue of an imbalance between the council's costs and revenue trends. Even if this could be achieved by using other levers to solve the current \$295 million estimated budget challenge, such an approach is unlikely to be credible or sustainable and could lead to the need for even higher rates increases within the next few years.

## Assets

47. The Auckland Council balance sheet includes over \$70 billion of assets. The council has an existing programme of reviewing surplus assets to identify those that can be sold. The existing asset sale targets, already built into budgets are challenging and staff advise that increases to these would likely not be achieved. Options could be considered to realise value from more strategic council assets although some of these will require significant work (potentially through the next long-term plan).
48. Advice has been provided to Governing Body members on options around the council's shareholding in Auckland International Airport Limited (AIAL). A version of this advice, updated to reflect latest market conditions following the November MPS, is attached as Appendix D.
49. The Local Government Act 2002 defines any shareholding in an airport company as a strategic asset and therefore specific processes must be followed for any consideration of these assets. In particular, any decision to change the council's shareholding in AIAL would need to follow public consultation on an audited amendment to the current long-term plan.

50. The advice attached includes an assessment of the strategic rationale for council ownership of the shares. With only an 18 per cent stake, the council has very limited ability to influence the strategic direction of AIAL and staff analysis has concluded that any strategic goals that the council may be seeking can be achieved through means other than council ownership of the shares.
51. While current estimates are that the council could receive around \$40 million in dividends from AIAL next year, if the council were to sell its shareholding and repay debt the interest savings would likely be around \$88 million. Therefore, a sale could contribute up to \$48 million towards closing the operating budget gap.

## Debt

52. The council could choose to fund a higher level of capital expenditure from borrowings than currently planned while remaining within current policy settings around ensuring a balanced budget and moving to full funding of depreciation by 2028.
53. Current policy settings would allow for this up to \$140 million but it is important to note that the capacity in future financial years is less. This means that using debt to the full extent of the policy settings would require replacement mitigations to be found in subsequent years, adding to the budget challenge for those years and putting pressure on future rates increases.
54. A key consideration for this lever is that it does not address the operating cost challenge but merely postpones its mitigation. The additional borrowing will also increase the level of interest costs faced by the council in future years.

## Conclusion and next steps

55. It is critical that the items for public consultation represent a credible and sustainable plan, for addressing operating budget challenges for 2023/2024 and beyond. The proposed levers need to be implementable within the required timeframe and need to avoid unacceptable shocks to ratepayers – both now and in the future.
56. Use of debt can be part of the mix, but too much will create greater challenges for future budgets.
57. Opex reductions will likely need to play a key part, but the proposed changes must be implementable and some of the more fundamental potential changes can best be considered as part of the next long-term plan process.
58. Considering the sale of airport shares is a credible lever that would reduce the reliance on the opex and rates levers. Reducing debt in a time of rising interest rates would be a prudent thing to do and would increase the confidence that external stakeholders have in the council's financial management approach.
59. While challenging and unpopular, rates increases is a key budget lever that needs careful consideration, both in terms of the 2023/2024 year and the coming few years.
60. Decisions on items need to be made on 15 December 2022 in order for staff to prepare consultation materials and complete any required audit reviews prior to public consultation early next year.
61. A key consideration at this stage is financial flexibility. Things may still change in the external environment, and we need to be prepared to respond to community feedback. Any potential budget



lever that is excluded at this stage will not be available when final budget decisions are made in May/June 2023.

## Appendices

A	Updated budget projections
B	Operating budget reduction options and implications
C	Rates advice
D	Airport shareholding advice and options
E	Fact sheets

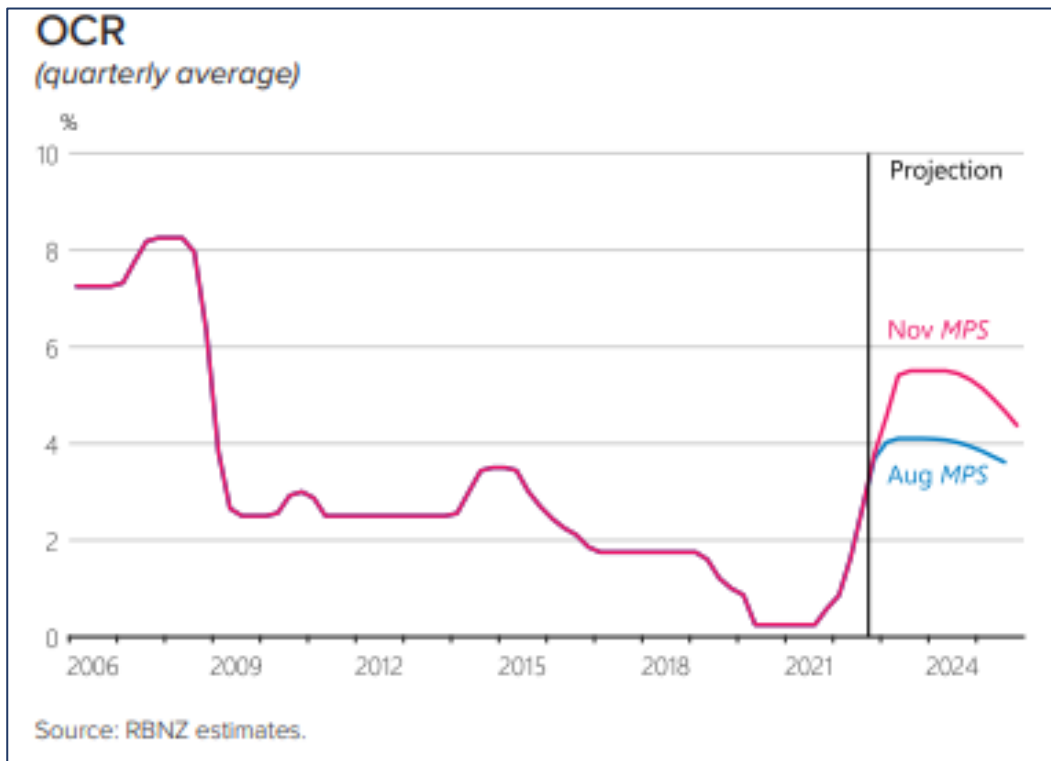
## Appendix A: Updated budget projections

### Context: A rapidly changing economic environment

1. The Annual Budget 2022/2023 and the report presented to the Governing Body on 10 November 2022 noted the rapidly changing economic environment and the impacts this has on the council's budget position.
2. On 23 November the Reserve Bank of New Zealand (RBNZ) released an updated Monetary Policy Statement.

### Interest rates

3. The headline increase in the Official Cash Rate was in line with market predictions (a 75 basis point increase) however the associated commentary indicated that the RBNZ expect to continue to increase the cash rate to a peak of 5.5% by the middle of next year. This is higher than had been previously indicated, or markets had expected.

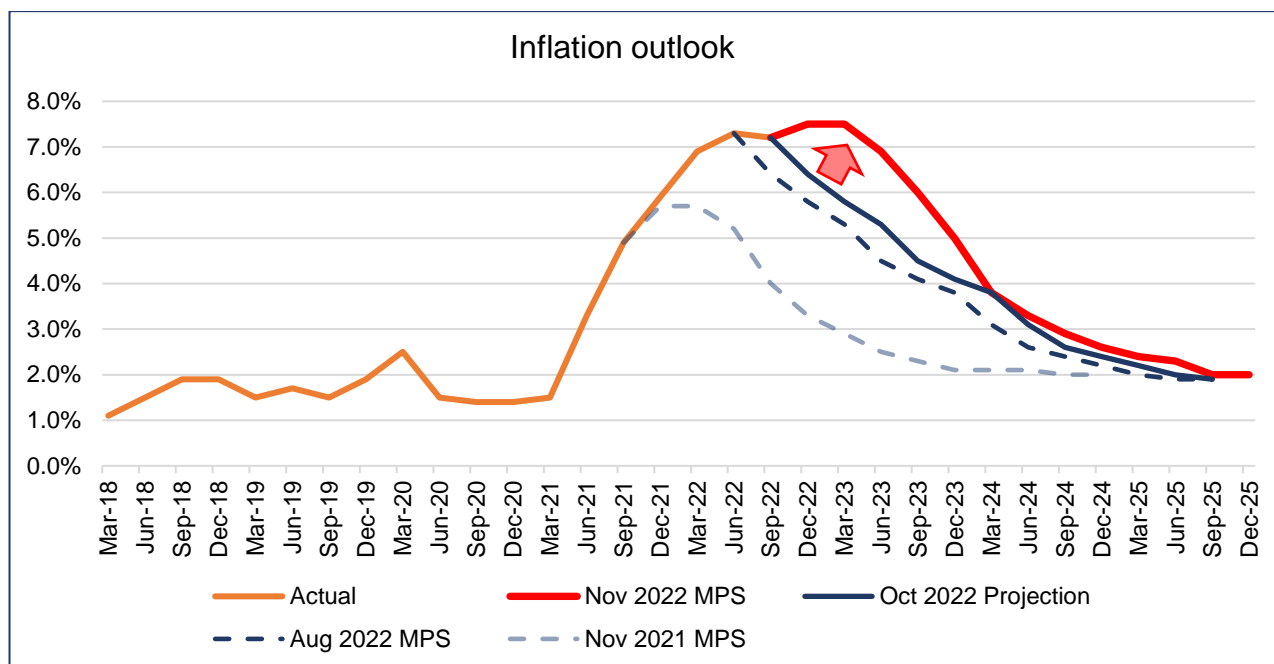


4. Following the announcement on 23 November the council's treasury staff updated the projected cost of borrowings and the projected average cost for the 2023/2024 year (after hedging) increased by around 0.09%.

### Inflation

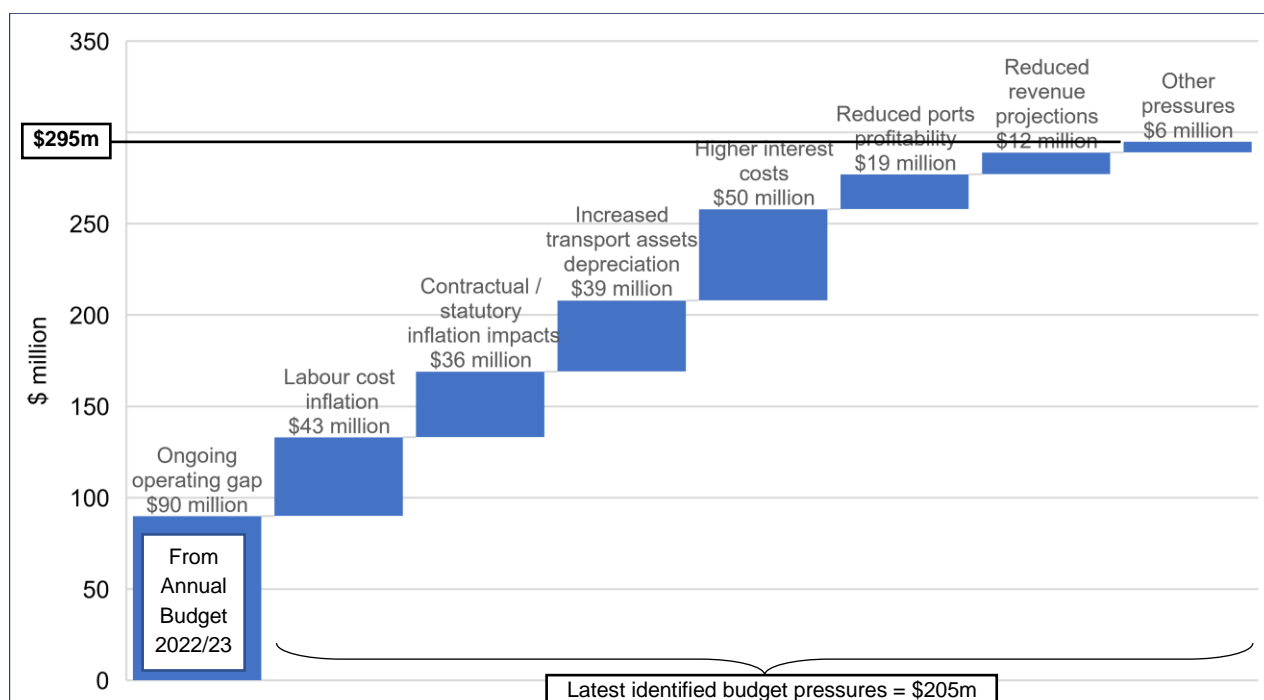
5. The Monetary Policy Statement also included updates to the RBNZ's inflation forecasts. These were notably higher than previously projected with an expectation that annual movements in the Consumer Price Index (CPI) would peak at 7.5% for the year to December 2022 and remain at that level for the following quarter before beginning to fall. This compares with our projection in October that CPI would fall to 6.4% in December and then fall further in following quarters.

6. The chart below compares the inflation forecasts released by the RBNZ, alongside the projection we produced in October.



### Analysis: Cost pressures

7. Council staff reviewed these changes in projections and forecasts and calculated that the overall impact on the budget challenge for 2023/2024 was likely to be an increase of around \$25 million, to a total operating budget gap of \$295 million.
8. The Group Chief Financial Officer verbally reported this to the Governing Body on 24 November.
9. The chart below shows the makeup of the updated operating budget gap.



10. The table below shows an updated list of budget challenges for 2023/2024. The key movements since 10 November are in workforce costs, indexation of contracts (for public transport, road and facility maintenance), and interest costs.

Entity	Description	Amount
Group	Workforce	\$42.7 m
Ports of Auckland Ltd	Updated profitability (SCI)	\$19.0 m
Auckland Transport	Indexation (public transport contracts and maintenance)	\$26.0 m
	Public transport fares	\$3.1 m
	Services to support CATR	\$1.7 m
Auckland Council	National Policy Statement – Freshwater Management	\$2.9 m
	Amenity Grants	\$2.9 m
	Regulatory revenue	\$4.6 m
	Full facility maintenance contracts	\$6.8 m
	Other	\$1.8 m
<b>Sub-total: Net direct expenditure</b>		<b>\$111.5 m</b>
	Auckland Transport depreciation (funded portion)	\$39 m
	Interest costs	\$50 m
	Airport dividend	\$4 m
<b>TOTAL</b>		<b>\$205 m</b>

## Unmitigated budget position

11. Without any mitigations the key financial metrics for the 2023/2024 budget are as below.

### Key financial parameters

\$million	Unmitigated budget 2023/2024
Total capital investment	2,866
Total operating expenditure	5,517
Average general rates increase	3.50%
Rates revenue	2,437
Total operating funding sources	5,272
Total assets	75,818
Total borrowing	12,621
Total equity	57,739
Debt to revenue ratio	247%

### Budgets by entity

\$ million	Operating		Capital	
	Direct expenditure	Direct revenue	Capital investment	Capital revenue
Auckland Council	1,654	429	576	14
Customer and Community	640	110	261	8
Infrastructure and environmental	310	49	245	6
Auckland Council other	704	270	70	
Auckland Transport	1,229	802	1058	559
Eke Panuku	81	55	109	
Tātaki Auckland Unlimited	220	102	57	
Watercare Services Ltd	349	985	773	
Ports of Auckland	207	321	46	
CRL Limited			286	
Capital timing adjustment			-78	
<b>Total</b>	<b>3,740</b>	<b>2,694</b>	<b>2,827</b>	<b>573</b>

# Appendix B: Operating budget reduction options and implications

## Context

1. The operating expenditure (opex) lever is a key mechanism that Auckland Council has often used to manage its budget.
2. Since amalgamation the council has achieved over \$2 billion of operating savings and the impact of these prior savings programmes is that general rates are 14 per cent less than they would be without the intervention.
3. CCOs have also managed internal savings targets, generally to mitigate the impact of cost pressures for which council has not provided additional funding.
4. The Recovery Budget set a target of locking in \$90 million of annual ongoing cost reductions from 2021/2022 for Auckland Council. As of 30 November 2022 \$64.4 million, of the 2022/2023 target had been achieved, however this includes one-off savings. About \$57.4 million of the \$90 million ongoing target for the 2023/2024 financial year has been achieved.

## Key considerations

5. Any opex reductions that are proposed need to be over and above existing savings targets that are already in the budget. To date efficiency savings have been both one-off and enduring. One-off savings have helped to achieve the savings target for each year but require further replacement savings to be identified in future years.
6. With previous and existing ambitious efficiency targets, additional opex reduction targets would almost certainly impact community-facing services, delivery (including against agreed policies and strategies) and organisational performance.
7. The larger the size of any cost reduction target the harder and riskier it is to implement in the short-term, and the more impact it will have on services. Significant changes may require public consultation and/or audit processes putting further pressure on timeframes.

## What are core services?

8. The council has never explicitly defined core services, but there are guiding documents such as the Auckland Plan and the Long-term Plan.
9. The Local Government Act 2002 (LGA) between 2009 and 2019 defined core services as network infrastructure, public transport services, solid waste collection and disposal, the avoidance or mitigation of natural hazards, libraries, museums, reserves, and other recreational facilities and community amenities. This definition has been removed from the Act.
10. The LGA now states that the roles of councils are to promote the social, economic, environmental, and cultural well-being of communities now and for the future.
11. The council does not have discretion over certain services (e.g., under the Building Act 2004, Resource Management Act 1991). There are also some services where council has an express statutory obligation to provide or perform a particular function (e.g., governance functions, property valuations, civil defence). These should also be considered mandatory services.



## Prioritisation Framework

12. The council has agreed a service prioritisation framework to assist with focusing on priority services and how they should be delivered (e.g., do more, less, or do differently).
13. Feedback from the annual budget consultation indicated a level of support of 54% when asked about how we propose to choose which services to reduce, stop or change

### Service prioritisation framework

WHAT ARE THE THINGS THAT WE:				
	must do?	should do?	could do?	won't do?
<b>These are things that</b>	<ul style="list-style-type: none"> <li>• Are required by law (including our legal obligations to Māori)</li> <li>• Are essential services</li> </ul>	<ul style="list-style-type: none"> <li>• Deliver on key priorities like climate action, transport, the environment and community development</li> </ul>	<ul style="list-style-type: none"> <li>• Mitigate key risks</li> <li>• Provide additional/ improved services for our customers and communities</li> </ul>	<ul style="list-style-type: none"> <li>• Don't align to key priorities</li> <li>• Don't deliver value</li> <li>• Can be provided just as well by others</li> </ul>
<b>How we will prioritise</b>	We will do this first	We will do these to the extent that we can afford to	Of these, we will do the things that deliver the most value or reduce the most risk	We will look to stop doing these
<b>Opportunities to improve value for money</b>	<ul style="list-style-type: none"> <li>• Should we do more/less?</li> <li>• Could we do this differently?</li> <li>• Can we do this better?</li> <li>• Can we partner with someone else to get better outcomes?</li> </ul>			<ul style="list-style-type: none"> <li>• Stop</li> <li>• Phase out</li> <li>• Leave to others</li> </ul>

## Approach to identifying opportunities

14. To ensure elected members are advised and aware of impacts of using the opex lever, Auckland Council and CCO staff have assessed potential opportunities for reducing operating expenditure.
15. The opportunities have been assessed against the service prioritisation framework and resulting cuts could mean that council:
  - Do less of some activities where they are “Must do”, “Should do” or “Could do”
  - Stop, phase out or leave others in the market to provide services that fall into the “Won't do” category
16. As outlined above, the more significant the impact on services the greater the process requirements are that must be met prior to implementation. Consultation and final decision-making requirements mean there is an extremely short timeframe for opportunities to be implemented by 1 July 2023 when savings need to begin to be realised. Consulting on wide-ranging and complex changes to council services through this annual budget creates a high degree of implementation risk.
17. The opportunities outlined in the sections that follow show both savings with low to moderate risks in relation to implementation as well as opportunities that carry a high level of implementation risk.

## Potential efficiency savings and cost reduction opportunities

### Auckland Council

18. Auckland Council's total operational savings opportunities will contribute towards the residual existing savings target as well as the additional \$60 million target included in the Mayoral Proposal.
19. The residual \$32.7 million of Auckland Council's existing savings target will be primarily achieved through the Auckland Council Chief Executive's target for reduction in costs generally related to support services. Some of the changes that are likely to be implemented under the Chief Executive's delegation include:
- Simplification and reduction of common support services such as corporate support services, vehicle fleet, elected member support, strategic finance, and procurement.
  - Simplification of management portfolios and structures.
  - Reduction in other back office and administrative activities across the organisation.
  - Integration of some remaining service centres with existing facilities.
20. While these savings will be focused on reducing the cost of back-office support functions, given the scale of the change there may be some impact on some services to the community.
21. The table below outlines the opportunities to achieve the additional \$60 million in savings in the 2023/2024 year.

Opportunity	Potential Savings (\$m)	Service impacted/commentary
<b>Reduce reliance on general rates funding for the following activities:</b> <ul style="list-style-type: none"> <li>• Community and social innovation programmes</li> <li>• Programmes that are also delivered by central government or other agencies</li> <li>• Programmes that support economic development and employment</li> </ul> <b>Reduction in the number of council delivered community and social programmes and activities</b>	20	<p>Examples include reductions to:</p> <ul style="list-style-type: none"> <li>• Arts and leisure programmes</li> <li>• Number and/or frequency of regional events e.g. Music in Parks, Movies in Parks, Ambury Farm day</li> <li>• Provision of education programmes</li> <li>• Economic development and employment activities</li> <li>• Community activation and funding activities</li> </ul> <p>Depending on the extent to which additional external funding and or user charges can be obtained, communities within Auckland will be affected by the reduction of services and activities, especially those who have a greater reliance on the services outlined in this proposal.</p>
<b>Discontinuing all general rates funded, regional, contestable grants</b>	8	<p>Discontinue contestable regional grants in the following areas:</p> <ul style="list-style-type: none"> <li>• Community Development</li> <li>• Events, Arts &amp; Culture</li> <li>• Environmental</li> <li>• Historical Heritage</li> <li>• Youth and sports programmes</li> </ul> <p>Some community groups that are reliant on council grants may need to seek alternative funding.</p>
<b>Reduce total funding allocation for Local Boards by 5%</b>	16	<p>Service implications to be determined by individual local boards. The areas that are most likely to be impacted follow:</p> <ul style="list-style-type: none"> <li>• Local community programmes</li> </ul>

Opportunity	Potential Savings (\$m)	Service impacted/commentary
		<ul style="list-style-type: none"> <li>Local grants (contestable and term grants)</li> <li>Local events</li> <li>Local environmental programmes</li> </ul> <p>Local boards may have an opportunity to offset reductions through a review of community leasing provision guidelines.</p>
<b>Reduction in regional open space and healthy waters maintenance</b>	<b>7</b>	<ul style="list-style-type: none"> <li>Optimisation and reduction in open space levels of service delivered through the Parks and Community Facilities full facility maintenance contracts. Specific areas include rationalisation and optimisation of rubbish bins and minor reductions in levels of service in garden and turf maintenance.</li> <li>Healthy Waters budgets are set at above average levels to cater for large storm events. Propose to change budgeting method with minor capex to reduce maintenance requirement. No service level impact.</li> </ul>
<b>Simplification and consolidation of group strategy and policy activity</b>  <b>Mandate group shared services for common support services</b>	<b>5</b>	<ul style="list-style-type: none"> <li>Reduce the number of strategies, policies and plans across the Auckland Council Group by simplifying and consolidating strategy and policy activity and limiting new strategies.</li> <li>Accelerate work on shared services across the Auckland Council Group (including the urgent implementation of a shared service construct to deliver near-term savings).</li> <li>Consolidate corporate office space across the Auckland Council Group.</li> </ul>
<b>Discontinue direct Early Childhood Education (ECE) provision</b>	<b>1</b>	Withdraw from the direct provision of ECE services following engagement with relevant local boards and affected customers and staff on how and when this will be implemented.
<b>Fees and charges</b>	<b>3</b>	Increase fees by a minimum of CPI for regional and local services. May be restricted for cost recovery activities and commercial activities.
<b>TOTAL</b>	<b>60</b>	

22. Further potential savings opportunities or alternative service delivery models could provide savings of \$15 to \$20 million for Auckland Council but carry a higher implementation risk due to constrained timeframes. These opportunities would be better assessed through the LTP process for the 2024/2025 financial year and beyond. They include:

- Achieving the full financial benefit of shared service implementation.
- Changing the funding policy for local boards, moving to bulk funding which would allow boards to give greater effect to recently adopted Increased Decision Making.
- Implementing changes to community service delivery models with a shift to more digital services and partnerships including a shift from traditional asset-based approaches. This could lead to the divestment of some underutilised facilities.

### Tātaki Auckland Unlimited (TAU)

23. Relative to the current Long-term Plan budget, TAU's funding for economic development and visitor attraction will need to be reduced by 50 per cent due to council being presently unable to resume the Accommodation Provider Targeted Rate for 2023/2024, similar to the current financial year.

24. In addition, TAU have identified how \$27.5 million of further operating funding reductions could be achieved for 2023/2024 as follows:

Opportunity	Potential Savings (\$m)	Service impacted/commentary
<b>Reduction in the reliance on rates funding for the following activities:</b> <ul style="list-style-type: none"> <li>• Operations of facilities such as the Zoo, Art Gallery, Maritime Museum, Auckland Live and Stadiums.</li> <li>• Economic Development and Investment activity</li> <li>• Visitor and Destination attraction activity</li> </ul> <b>Introduction of user pays in areas previously not charged (Aucklanders and international visitors)</b> <b>Minor reductions related to community events</b>	27.5	<ul style="list-style-type: none"> <li>• Implementation of new revenue and cost saving opportunities resulting from the merger (Regional Facilities Auckland and ATEED)</li> <li>• Reduction in overheads through greater use of shared services opportunities, reduced spend on office costs, non-essential travel and corporate costs</li> <li>• Review pricing, opening hours, staffing costs and programming at regional facilities to reduce rate payer funding contribution requirements</li> <li>• Reduce subsidised access to facilities and events</li> <li>• Implement Single Stadium Operator model to deliver efficiencies</li> <li>• Develop industry funding models to support ongoing destination activity</li> <li>• Review activity not directly related to delivery of key performance measures including policy advice and administrative support of non-TAU facilities</li> <li>• Identification of diversified revenue opportunities via enhanced service offerings and sponsorship activities</li> <li>• Refinement of targeted initiatives, projects and programmes within TAU</li> <li>• Review of involvement in delivery of programmes and advisory activity in relation to economic development</li> </ul>
<b>Total</b>	<b>27.5</b>	

25. Larger reductions of up to an additional \$50 million would result in significant reduction in services delivered by TAU. Implications of reductions at this level would result in:

- Little to no activity in Economic Development or Visitor attraction (impacts on medium term prosperity of the region).
- Notable reduction in level of operational service to the community (including some potential facilities closures).
- No Major events post FIFA unless already contractually obligated.

26. The implications of stopping or reducing service levels in these areas are:

- Slower recovery in visitation demand, less facilitated direct investment and less economic activity.
- Reduced equity & accessibility for Aucklanders, particularly young and deprived.
- Significantly heightened inequity of access for Aucklanders.
- Less amenity for Aucklanders.

## Auckland Transport

27. Auckland Transport (AT) have an existing \$24 million savings target in 2023/2024 to offset budget pressures related to:

- \$10 million downside risk on parking and enforcement revenues.
- An existing \$10 million cost efficiency target.
- Higher maintenance costs of \$4 million reflecting a growing asset base (and cost inflation indexation).

28. In addition, AT can deliver \$25 million of savings through implementation of the opportunities outlined in the following table.

Opportunity	Potential Savings (\$m)	Service impacted/commentary
<b>Holding public transport services around current levels (i.e., not reinstating all trips removed as a result of the current bus driver shortages)</b>	<b>21</b>	The key implications are customers and the broader community who regularly use public transport will be impacted by these service reductions. However, as PT levels have reduced due to COVID-19 and behavioural changes, the number of services will remain sufficient to keep up with the demand of PT levels. AT are undertaking a review of the bus service network to improve the timetable and connectivity of services provided and will continue to seek further efficiencies to limit the timetable and service frequency impacts.
<b>Increasing public transport fares by a weighted average of 6.5%.</b>	<b>4</b>	Increasing public transport fares will have an impact on the price and affordability of transport services. As the half price fares scheme supported by the Government ends, a 6.5% increase will have a much higher financial impact on the community and may create equity issues. This will be mitigated by the introduction of the Community Connect concession at 50% of normal fare for community services card holders.

29. Higher cost reduction targets will impact even more public transport services. Under the current funding rules, a further \$25 million cost saving would require around a \$67 million decrease in services due to a loss of fares and co-funding. This would require up to a 20% reduction in services (principally on bus), on top of reductions proposed above.

## Eke Panuku

30. Eke Panuku have identified the following opportunities to deliver \$5 million of savings.

Opportunity	Potential Savings (\$m)	Service impacted/commentary
<b>Focussing on essential priorities, complete committed capital works. \$20 million of capex to be deferred from the current financial year. Further capex deferral in 2023/2024 of \$36 million, predominantly in the level of investment in urban regeneration.</b>	<b>1.9</b>	<p>The current property market is already slowing, land sales and cost escalations are impacting delivery of programmes. In 2022/2023 investment will be reduced in the following areas:</p> <ul style="list-style-type: none"> <li>• public amenity improvements</li> <li>• acquisitions</li> <li>• delays to planned Westhaven Marina capital works</li> </ul> <p>In the 2023/2024 year a \$36 million reduction in capital investment will predominantly affect the scope, scale and speed of the urban regeneration programme across all priority locations. Specifically, savings will be achieved by deferring or cancelling between 15 to 20 projects in priority locations that haven't started or are in the early stages to reduce impacts on communities and programmes.</p> <p>Engagement with key stakeholders will be undertaken by Eke Panuku on the impacts of proposed budget savings.</p>
<p><b>Reduce the level of corporate and property management costs.</b></p> <p><b>Reduce direct operational costs related to urban regeneration activities.</b></p>	<b>3.1</b>	<p>The slower delivery of key urban regeneration activities across all priority locations will mean some outcomes for each area will not be delivered within the timeframes the community expect.</p> <p>Spend will be reduced by 50% on local events in town centres such as matariki festivals, weekend workshops for kids, Christmas and cultural new year celebrations.</p> <p>There will also be a reduction in activities related to local town centre activation that aim to build community cohesion.</p> <p>A significant reduction in spend on planned urban regeneration in the Waterfront including security, events, activation and planning and design for future development activities.</p> <p>A reduction in work related to integrating and leveraging council group property and investment to achieve transit-oriented development, housing and services.</p>
<b>Total</b>	<b>5</b>	

31. Additional cost reductions of \$15 million would require Eke Panuku to:

- Significantly reduce the scope of the Waterfront regeneration programme.
- Exit urban regeneration activities in between 9 and 11 priority locations from the current programme chosen in consultation with elected representatives.



- Focus only on transactional property management and disposals, in exited locations. The focus on sustainability and climate change, quality design, Māori outcomes, placemaking, local engagement and partnerships would be more limited.
32. There are several implications and risks associated with higher levels of operational cuts for Eke Panuku. Additional to not meeting community and stakeholder expectations of local regeneration:
- A commitment has been made to the council, local boards, key stakeholders and the public that property sales proceeds in priority locations would be reinvested into regeneration (except Waterfront and City Centre). These commitments have not yet been fully met to date, with \$90-\$100 million of disposal proceeds yet to be re-invested, with more to come from additional sales.
  - Commitments made under the Public Works Act, in relation to contamination and within development agreements will need to be met, even after locations are exited.
  - The selection and decision-making process to determine the locations to exit to meet the budget reduction target would be required urgently.
  - The joint venture with the New Zealand Super Fund, which has recently been created, may not deliver on the current expectation of advancing the regeneration of priority locations.

## Ports of Auckland

33. Ports of Auckland have committed to a \$10 million improvement to their net operating performance for the 2023/2024 year, increasing the projected net profit to \$52 million compared with \$42 million in the current Statement of Corporate intent. The additional \$10 million will be achieved through:
- Margin improvement.
  - Cost reductions.
  - Insurance / funding synergies from working with Auckland Council.
34. Subject to trading and solvency requirements Ports of Auckland are also willing to commit to increase the dividend<sup>1</sup> paid to Auckland Council by \$10 million for 2023/2024.

## Implementation considerations

35. The opportunities that have been put forward for consideration will require lead time to implement. If changes are not implemented by the beginning or very early in the 2023/2024 financial year, the required savings to balance the budget may not be achieved.
36. To ensure the best possible chance of achieving cost reduction targets, obtaining political decisions now where possible would mean that staff can get started with the work that will be required to implement changes.
37. Some changes can be implemented within the decision-making delegation of CCO Boards and Chief Executives of each of the entities.
38. Staff have considered these delegations as well as annual budget consultation requirements and propose that the following changes be implemented as soon as possible rather than waiting until the conclusion of the public consultation process.

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<sup>1</sup> When preparing the Auckland Council Group consolidated financial statements, dividends received from a wholly owned subsidiary such as Ports of Auckland Limited are eliminated as a transfer between entities within the group. Therefore, it is the underlying profitability of the port rather than dividends received that flows through to the group's bottom line.

<b>Auckland Council</b>	<ul style="list-style-type: none"> <li>• Group shared service implementation including corporate accommodation changes</li> <li>• Simplification and consolidation of group strategy and policy activity</li> <li>• Reduced open space and healthy waters maintenance</li> <li>• Withdrawal from the provision of early childhood education services noting that effective engagement will take place with relevant local boards and affected customers and staff on how and when this will be implemented.</li> </ul>
<b>Auckland Transport</b>	A weighted average fare increase of 6.5% agreed by the Auckland Transport Board on 1 December 2022 to be implemented this financial year.
<b>Eke Panuku</b>	<ul style="list-style-type: none"> <li>• Deferring \$20 million of capital works from 2022/2023 and additional \$36 million from 2023/2024.</li> <li>• Reducing the direct operating costs of property management and urban regeneration.</li> </ul>
<b>Tataki Auckland Unlimited</b>	Undertaking a comprehensive post-merger programme of operational efficiencies, including driving revenue opportunities and prioritisation across the entire organisation.

To support decision-making on key opex reduction opportunities that can be implemented for the 2023/2024 Annual Budget, some fact sheets have been prepared and are included in Appendix E.

## Appendix C: Rates options

1. The average overall rates bill for a residential property in Auckland is \$3,295 in 2022/2023. With the currently planned 3.5 per cent general rates increase, and existing policies on other rates, this would increase next year by around \$150<sup>1</sup>, or 4.6 per cent.
2. If no other budget mitigations are agreed to (beyond those indicated in the Annual Budget 2022/2023), and the council implemented a 13.5 per cent general rates increase to address the full amount of the operating budget pressure for 2023/2024, the average overall residential rates bill would increase by around \$433, or 13.1 per cent.
3. As a part of the mitigation of the overall budget challenge the council could look at general rates increases above that signalled in the 10-year Budget. For illustrative purposes the following analysis includes the impacts of increases of 7 per cent and 10 per cent (rather than the currently planned 3.5 per cent).
4. To reduce the immediate impact of these higher increases on residential ratepayers in 2023/2024 the council could also consider temporary policy changes including:
  - a pause to the Long-term Differential Strategy
  - a temporary reduction in the amount collected for specific targeted rates.
5. Current budget projections for 2023/2024 are based on an overall average general rates increase to existing ratepayers of 3.5 per cent (as planned in the 10-year Budget 2021-2031). Setting this increase at 7 per cent would raise additional revenue for the council of around \$70m in 2023/2024 and increase the average rates bill by an additional \$99 (a total increase of \$249). Setting this increase at 10 per cent would raise additional revenue for the council of around \$130m in 2023/2024 and increase the average rates bill by an additional \$184 (a total increase of \$334).

### Pausing the Long-term differential strategy

6. Under the rating policy businesses pay a greater share of rates than residential properties. Businesses make more use of, or place more demand on, council services like transport and stormwater and are better able to afford rates as they can claim back GST and rates can be claimed as expenses to offset income tax. The council will collect around 31 per cent of the general rate requirement from the business sector in 2022/2023. This equates to a business differential of 2.64 times the urban residential rate for 2022/2023.
7. However, the council has previously decided that level of business rates is too high and should be reduced gradually over time, in order to support economic growth. The Long-term differential strategy (LTDS) lowers the total amount of general rates (UAGC and value-based general rate) for businesses in equal steps from 31 per cent of the total general rate requirement in 2022/2023 to 25.8 per cent by 2037/2038. The rate of reduction is set so that the:
  - increase in rates for residential and farm/lifestyle properties above the underlying general rates increase is around 0.5 per cent more each year

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<sup>1</sup> Increases do not include the food scraps targeted rate as the level depends on the proportion of the year the service will be received – full year rate \$77.20

- decrease in rates for business properties below the underlying general rates increase is around 1.0 per cent less each year.
8. Pausing the LTDS for 2023/2024 would mean that:
    - the general rates increase is applied evenly across all ratepayers in 2023/2024, reducing the amount of rates increase that non-business ratepayers (residential by around \$15) and increasing the amount of rates that business would otherwise pay in 2023/2024 by around \$198
    - the LTDS and its impacts on the distribution of rates between business and non-business ratepayers would resume in 2024/2025
    - it will take an additional year to reach the target share of 25.8 per cent from business ratepayers. This would not be accomplished until 2038/2039.
  9. Pausing the LTDS would require consultation as it is a change to the rating policy set out in the Revenue and Financing Policy and the rating mechanism in the Funding Impact Statement and both of these documents would need to be amended. The LTDS has previously been paused for one year in 2017/2018.

### Temporary reduction in the amount collected for WQTR and NETR

10. In 2018 council introduced two new targeted rates to enable additional targeted funding of expenditure to address concerns with the degrading environment and poor water quality in streams and harbours. The Natural Environment Targeted Rate enables us to tackle the spread of Kauri dieback disease and the predators that are killing our native birds and trees. The Water Quality Targeted Rate enables us to bring forward our 30-year plan to invest in cleaning up Auckland's beaches, harbours, streams, and aquifers.
11. These targeted rates were originally due to expire in 2028 but were subsequently extended to 2031 to enable additional work on the programmes and projects that were making a difference. In addition to extending these programmes, it was decided to provide for the Water Quality Targeted Rate to increase in line with the planned level of general rate increase in the 10-year Budget 2021-2031 of 3.5 per cent. This was to enable major construction projects to commence six years earlier.
12. Due to the phasing of revenue collection and expenditure over time the Water Quality and Natural Environment targeted rates have accumulated significant reserves. In part this was due to COVID-19 disruption and supply chain issues delaying some of the planned activity and its associated expenditure. As at 30 June 2022 there were reserves of \$33m and \$20m for these rates respectively.
13. The council could choose to temporarily reduce the level of revenue collected from each of these rates in 2023/2024 by around two thirds and fund the expenditure planned for that year from the reserves. This would enable the delivery of these programmes to proceed as planned while providing temporary support to ratepayers through reductions in overall rates. Reducing the charge for both rates in 2023/2024 by two thirds would reduce the rates for the average residential property by around \$77 (\$46.29 for the Water Quality Targeted Rate and \$30.87 for the Natural Environment Targeted Rate). The rates for the average value business property would be \$376 lower.
14. Ensuring continuation of these programmes within the currently planned timeframes would require returning the targeted rates to their full level in 2024/2025. This will mean higher total rates increase

of around 2.2 per cent in 2024/2025 for the average value residential property (depending on the level of general rates increase adopted by the council for 2023/2024) at a time where council could still be facing financial challenges.

15. If the council chose to reduce these targeted rates for 2023/2024 then the impact on the program of works would need to be addressed in next 10-year Budget. This could involve:

- extending each of programmes and the targeted rates for additional years
- recovering additional revenue from the targeted rates in the remaining years of the planned programme of work
- reducing the planned projects involved in each programme to match the reduction in revenue.

16. Reducing the Water Quality Targeted Rate and Natural Environment Targeted Rate in 2023/2024 will require public consultation as these changes differ from the Funding Impact Statement set out in the 10-year Budget. There may also be further movements in reserve balances of these rates during the remainder of this year. This may impact on the amount that these rates could be changed in 2023/2024. This may result in reductions of these rates being more or less than \$77 when final decisions on rates for 2023/2024 are made in May/June next year.

### Combined impact of options

17. The table below shows the combined impact on total rates for average value properties of:

- different general rates increase options
- pausing of the Long-term Differential Strategy
- temporary reduction in rates collection for two targeted rates.

Impact on average value property	General rate increase scenario <sup>2</sup>					
	3.5%		7.0%		10.0%	
<b>Residential</b>	\$55	1.67%	\$154	4.66%	\$238	7.22%
<b>Business</b>	\$24	0.13%	\$617	3.39%	\$1,125	6.18%
<b>Farm/lifestyle</b>	\$37	0.94%	\$159	4.09%	\$263	6.78%

18. This analysis shows that with the two temporary mitigating actions, the overall rates impact for the average residential property of a 7 per cent general rates increase would be very close to the 4.6 per cent overall impact under the currently planned 3.5 per cent general rates increase without mitigation. However as discussed above, this would add 2.2 per cent to the overall rates increase for 2024/2025 when the temporary mitigations roll off.

<sup>2</sup> Numbers do not include the food scraps targeted rate as the level depends on the proportion of the year the service will be received – full year rate \$77.20

## Affordability Assessment

19. The Local Government Rates Inquiry 2007 suggested that a measure of rates affordability would be that they are below 5 per cent of the median gross household income. In 2022/2023 the median residential rates (including water and wastewater charges) were \$3,915 – this equates to around 3.4 per cent of median household income for homeowners.
20. The following table shows this affordability measure under the various scenarios for 2023/2024, and shows no significant change under any of the scenarios:

	Current plans	Including pausing LTDS and targeted rates reductions			No other mitigations
Average general rates increase	3.5%	3.5%	7.0%	10.0%	13.5%
Affordability measure	3.53%	3.46%	3.53%	3.60%	3.73%

## Further analysis

21. The following tables set out in more detail a breakdown of the changes in rates under various options for the general rates increase and application of the mitigation options discussed above.



## General rates scenarios

### Rates impact analysis 2023/2024

22. The table below shows the overall rates impact of three hypothetical scenarios for the general rates increase.

23. The policy setting for the other rates are as per the Long-term Plan 2021-2033:

- Continue Long Term Differential Strategy (LTDS) that gradually lowers share of general rates paid by businesses
- Climate action targeted rate: increase of 3.5 per cent
- Water quality targeted rate: increase of 3.5 per cent
- Natural environment targeted rate: no increase
- Waste services targeted rates (base service and refuse): set to maintain cost recovery
  - base charge funds – recycling, annual inorganic collection, regional initiatives
  - standard refuse – kerbside refuse collection (standard 120L bin).

Rates for the average Capital Value (\$1.43m) residential property	2022/23	3.5% general rates increase			7.0% general rates increase \$70m additional general rates			10% general rates increase \$150m additional general rates		
	\$Rate	\$Rate	\$ change	% change as share of total change	\$Rate	\$ change	% change as share of total change	\$Rate	\$ change	% change as share of total change
General rate - UAGC	477.00	494.00	17.00	0.52%	510.00	33.00	1.00%	525.00	48.00	1.46%
General rate – value-based	2,318.72	2,430.89	112.17	3.40%	2,513.86	195.14	5.92%	2,583.59	264.87	8.04%
CATR	69.09	71.88	2.79	0.08%	71.88	2.79	0.08%	71.88	2.79	0.08%
WQTR	70.87	73.73	2.86	0.09%	73.73	2.86	0.09%	73.73	2.86	0.09%
NETR	46.43	46.67	0.24	0.01%	46.67	0.24	0.01%	46.67	0.24	0.01%
Waste base charge	140.45	155.28	14.83	0.45%	155.28	14.83	0.45%	155.28	14.83	0.45%
Waste standard refuse	172.89	173.14	0.25	0.01%	173.14	0.25	0.01%	173.14	0.25	0.01%
<b>Total</b>	<b>3,295.45</b>	<b>3,445.59</b>	<b>150.14</b>	<b>4.56%</b>	<b>3,544.56</b>	<b>249.11</b>	<b>7.56%</b>	<b>3,629.29</b>	<b>333.84</b>	<b>10.13%</b>
<b>Total rates avg CV business</b>	18,198.20	18,403.70	205.50	1.13%	18,990.49	792.29	4.35%	19,492.88	1,294.68	7.11%
<b>Total rates avg CV farm/lifestyle</b>	3,885.34	4,070.39	185.05	4.76%	4,193.38	308.04	7.93%	4,298.29	412.95	10.63%

#### Notes:

- Numbers above do not include the new food scraps targeted rate. The new food scraps service will be rolled out to urban Auckland beginning in the later part of 2022/2023. The level of the rate for 2023/2024 will depend on the proportion of the year the service is received. The full year rate is proposed to be \$77.20.
- The standard refuse rate only applies in the former Auckland City Council and Manukau City Council areas. The other areas are on pay as you throw. The standard refuse rate is used for rates analysis as it is a reasonable proxy for the cost incurred by the average pay as you throw customer.

## Affordability analysis

General rate increase scenario	2022/23	3.5% gen rates increase	7.0% gen rates increase	10% gen rates increase
Rates and Watercare charges for the median CV (\$1.18m) residential property	3,915.38	4,144.48	4,228.97	4,301.53
Rates and charges as a % of median household income for homeowners'	3.40%	3.53%	3.60%	3.66%

Note: The numbers presented above may change once the objections to the revaluation have been finalised.

## General rates scenarios with paused LTDS and reduced WQTR and NETR

### Rates impact analysis 2023/2024

24. The table below shows the rates impact of three hypothetical scenarios for the general rates increase with the following mitigations applied:

- Water quality targeted rate and Natural environment targeted rate: rate reduced by 2/3 and reserves used to maintain planned expenditure - \$77 benefit in 2023/2024
- Long-term differential strategy paused for one year - \$15 lower increase for residential and \$200 higher increase for business.

25. The policy setting for the other rates are as per the LTP:

- Climate action targeted rate: increase of 3.5 per cent
- Waste services targeted rates (base service and refuse): set to maintain cost recovery

Rates for the average Capital Value (\$1.43m) residential property	2022/23	3.5% general rates increase			7.0% general rates increase \$70m additional general rates			10% general rates increase \$150m additional general rates		
	\$Rate	\$Rate	\$ change	% change as share of total change	\$Rate	\$ change	% change as share of total change	\$Rate	\$ change	% change as share of total change
General rate - UAGC	477.00	494.00	17.00	0.52%	510.00	33.00	1.00%	525.00	48.00	1.46%
General rate – value-based	2,318.72	2,416.08	97.36	2.95%	2,498.57	179.85	5.46%	2,567.85	249.13	7.56%
CATR	69.09	71.88	2.79	0.08%	71.88	2.79	0.08%	71.88	2.79	0.08%
WQTR	70.87	24.58	-46.29	-1.40%	24.58	-46.29	-1.40%	24.58	-46.29	-1.40%
NETR	46.43	15.56	-30.87	-0.94%	15.56	-30.87	-0.94%	15.56	-30.87	-0.94%
Waste base charge	140.45	155.28	14.83	0.45%	155.28	14.83	0.45%	155.28	14.83	0.45%
Waste standard refuse	172.89	173.14	0.25	0.01%	173.14	0.25	0.01%	173.14	0.25	0.01%
<b>Total</b>	<b>3,295.45</b>	<b>3,350.52</b>	<b>55.07</b>	<b>1.67%</b>	<b>3,449.01</b>	<b>153.56</b>	<b>4.66%</b>	<b>3,533.29</b>	<b>237.84</b>	<b>7.22%</b>
<b>Total rates avg CV business</b>	18,198.20	18,221.96	23.76	0.13%	18,815.48	617.28	3.39%	19,323.60	1,125.40	6.18%
<b>Total rates avg CV farm/lifestyle</b>	3,885.34	3,921.94	36.60	0.94%	4,044.27	158.93	4.09%	4,148.64	263.30	6.78%

#### Notes:

- Numbers above do not include the new food scraps targeted rate. The new food scraps service will be rolled out to urban Auckland beginning in the later part of 2022/2023. The level of the rate for 2023/2024 will depend on the proportion of the year the service is received. The full year rate is proposed to be \$77.20.
- The standard refuse rate only applies in the former Auckland City Council and Manukau City Council areas. The other areas are on pay as you throw. The standard refuse rate is used for rates analysis as it is a reasonable proxy for the cost incurred by the average pay as you throw customer.

## 2024/2025 impact

26. The targeted rate and differential strategy mitigations are only proposed to apply for one year.
27. Assuming the two targeted rates return to their originally planned levels in the 2024/2025 year this will increase the rates bill for the average value residential property by around \$77 or around 2.2 per cent (on top of any other increases).
28. The restarting of the long-term differential strategy in 2024/2025 will result in general rates increases for businesses being around 1 per cent below the overall average rates increase and for residential and farm and lifestyle being around 0.5 per cent above (as has been the case throughout the strategy).

## Affordability analysis

General rate increase scenario	2022/23	3.5% gen rates increase	7.0% gen rates increase	10% gen rates increase
Rates and Watercare charges for the median CV (\$1.18m) residential property	3,915.38	4,066.00	4,150.09	4,222.28
Rates and charges as a % of homeowners' median household income	3.40%	3.46%	3.53%	3.60%

Note: The numbers presented above may change once the objections to the revaluation have been finalised.

# Appendix D: Airport shareholding advice and options



# Contents

	Page
<b>Background and context</b>	3
<b>Strategic assessment</b>	8
What is a strategic asset and how do we review them?	
Strategic assessment of AIAL shareholding	
Other considerations	
<b>Financial assessment</b>	24
How to review financial investments	
Financial assessment of AIAL shareholding	
<b>Options for the council</b>	29
<b>Summary and conclusions</b>	41





# Background and context



# History of council shareholding

On the formation of Auckland Council in 2010 the group held 22.37% of the shares in AIAL.

These shares were inherited from Manukau City Council and Auckland City Council. Historically both councils held “blocking stakes” in AIAL. This is why the shareholding on day one exceeded 20% (two lots of >10%).

Initially the shares were transferred to Auckland Council Investments Limited (ACIL), a CCO, but were transferred to the council in 2018 upon disestablishment of ACIL.

The council now holds 266,328,913 AIAL shares, 18.09% of the total.

## Board representation

- In the past, Auckland Council had representation on the AIAL Board.
- John Brabazom was a director until 2015 (originally nominated by Manukau City Council).
- Richard Didsbury was a director until 2017 (originally nominated by Auckland City Council).
- On conclusion of these appointment’s replacements were not sought by ACIL.



# Historical financial performance

- Prior to Covid-19, council received annual dividends that had grown to \$59 million in the financial year 2019 (when the council held a 22.39% shareholding). On the market value of its investment at the time this represented a yield of 2.6%.
- The cumulative total dividends received by Auckland Council since its formation is \$482.9 million.

(\$millions)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	Total
<b>AC dividend value</b>	13.2	25.7	31.1	35.5	120.1	38.9	46.6	54.6	57.9	59.3	0	0	<b>482.9</b>
<b>Note:</b> The dividend declared in the 2014 year included \$85m of capital return to shareholders													



# Dividend reinvestment plan and capital raising

- At times AIAL has operated a Dividend Reinvestment Plan (DRP). A DRP is where shareholders can elect to receive extra shares instead of cash dividend payments.
- Auckland Council's policy is not to participate in the DRP (electing to receive cash payments instead).
- As some shareholders elected to receive extra shares instead of cash dividends this has the effect of increasing the number of shares on issue and overtime diluting Council shareholding in AIAL from 22.37% to 21.99%.
- Without participating in a DRP the council's shareholding as a percentage will continue to reduce
- In addition, AIAL undertook a capital raising in April 2020 (issuing shares at a moderate discount to market value). As Council did not participate in the capital raising, our shareholding in Council was further diluted to 18.09% as at 30 October 2021.
- Any further capital raising by AIAL will further dilute the council's shareholding.



# Auckland Airport Shareholding Policy

The shareholding policy sets out the strategy for managing the council's investment in AIAL

The policy was updated and included in the 10-year Budget 2021-2031 (Volume Two, page 291).

## Objectives:

The objectives are to maintain a strategic stake in Auckland Airport as an important national and regional asset, and ensure an appropriate financial return from the investment in the airport

## Strategy:

- maintain the number of shares it holds in AIAL
- Consider selling its shares only if the council would be substantially better off as a result, or worse off by maintaining its holding
- Maintain a strong relationship with AIAL directors and senior officers
- Monitor the risks associated with the airport both operationally and financially

## Other key points:

- Default position not to participate in any dividend reinvestment plan
- Specific considerations etc in case of a takeover offer, merger or capital restructuring





# Strategic assessment



# What is a strategic asset?

The Local Government Act (LGA) defines a strategic asset as:

“an asset or group of assets that the local authority needs to retain if the local authority is to maintain the local authority’s capacity to achieve or promote any outcome that the local authority determines to be important to the current or future well-being of the community”

It is up to the council to specify these assets or groups of assets through its Significance and Engagement Policy but the act also specifies certain assets will automatically be seen as strategic:

- any land or building owned by the local authority and required to maintain the local authority’s capacity to provide affordable housing as part of its social policy
- any equity securities held by the local authority in a port company
- **any equity securities held by the local authority in an airport company**

Decisions around strategic assets are deemed to have a high level of significance.

Any change to ownership or control of a strategic asset must be provided for in the council’s long-term plan. The long-term plan can be changed at anytime through the use of the Special Consultative Procedure with an audit review.



# Strategic assessment

One of Auckland Council's core statutory roles is to promote the social, economic, environmental and cultural well-being of communities now and for the future. If Council is to continue to hold shares in AIAL, it should be for the purposes of performing its statutory role.

When considering whether the council should own commercial assets, a rigorous process of testing the strategic imperative for ownership/control is required.

In 2015, the council appointed two independent advisory firms to undertake a review of Auckland Council's mix of financing sources and this work included a consideration of some strategic assets.

Strategically important infrastructure includes (but is not limited to) assets such as international airports, shipping ports, national power supply networks or national communication networks.

It is crucial to ensure development and management of such infrastructure is fit for purpose, timely and meets customer needs. The commercial incentives are generally aligned to these outcomes under private ownership.

Strategically important assets in New Zealand have varied ownerships including both crown or local government and private:

- Private – telecommunications network, fuel refining and distribution
- Government – land transport networks, water networks
- Blended – electricity networks, shipping ports





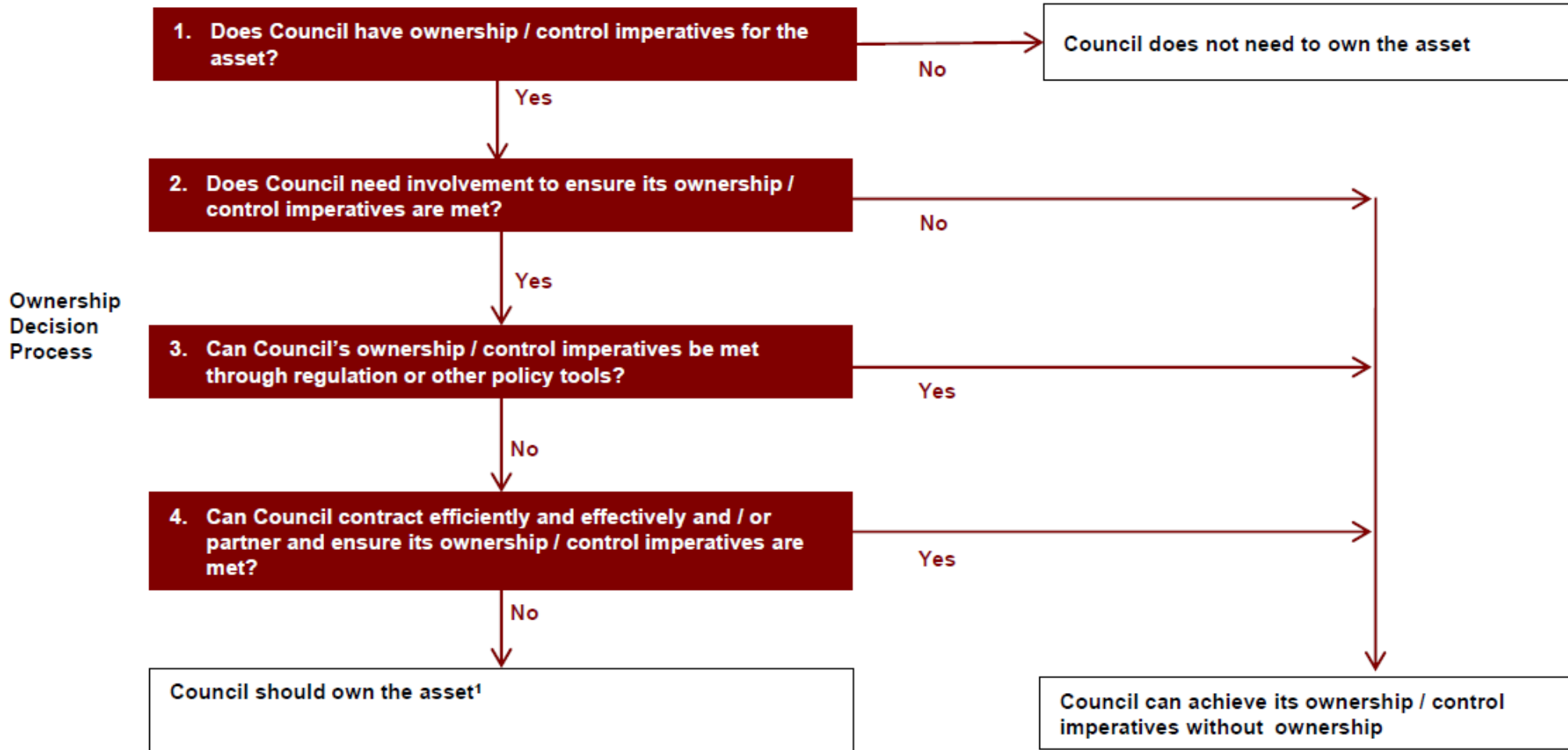
# Considering council's need for ownership/control

Based on our comments from previous slides an appropriate framework for assessing ownership options for strategic assets is as follows

1. Consider ownership / control imperative created by:
  - The council's existing control / influence
  - Whether the activity would not be provided otherwise, i.e. there is a market failure which is the council's role to address
  - The mismatch between private sector outcomes and preferred council outcomes which is unresolvable by regulation or contract
2. If this analysis reveals there is no strategic control imperative for council ownership, then council can actively consider divesting this asset / business as a financing option. This reflects our earlier observation that in the absence of a strategic control imperative:
  - The ownership is simply a financial investment earning a market return
  - There is almost certainly to be a higher value use for that scarce capital than simply earning a market-level financial return
  - Commercial risk attached to the investment is born by ratepayers
  - Council should consider this opportunity cost when making a decision to retain a financial asset



# Framework for reviewing strategic imperative for ownership/control



Source: Cameron Partners



# AIAL investment: ownership / control imperative

Auckland Airport is strategically important to NZ and the Auckland region, as are a range of other infrastructure with various ownership models.

While the council's shareholding in AIAL is automatically considered a strategic asset under the LGA, Auckland Council has never identified the strategic goals that it seeks from the investment.

The shareholding policy states that “the objectives are to maintain a strategic stake in Auckland Airport as an important national and regional asset”.

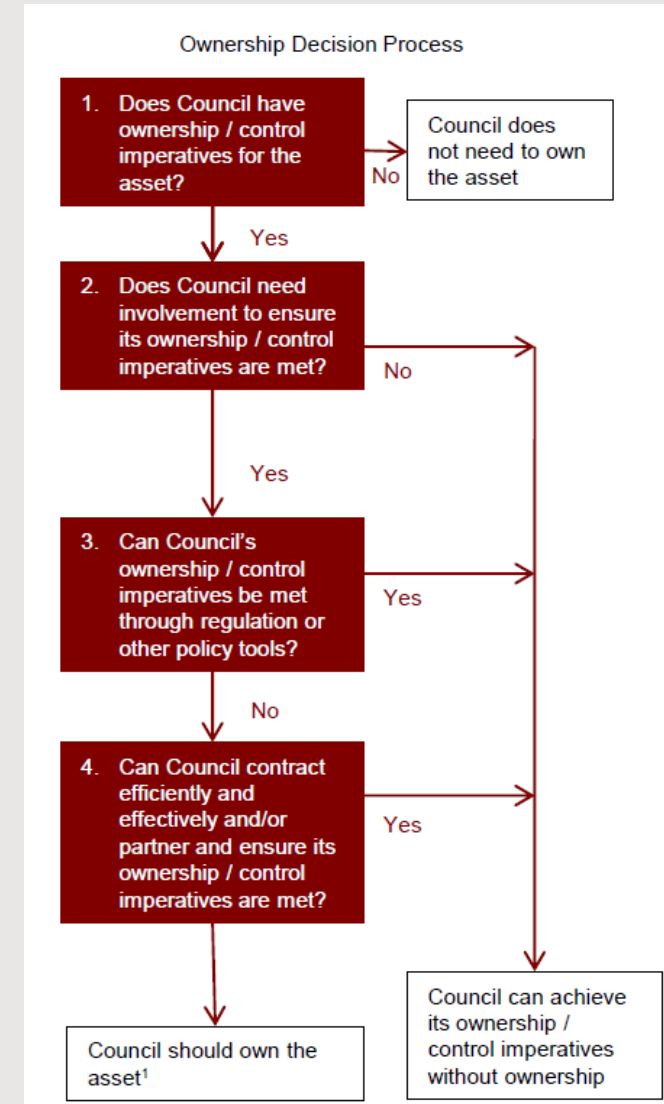
We have considered ownership / control imperatives based on the earlier framework



# Step 1. Does the council have ownership / control imperatives for the asset

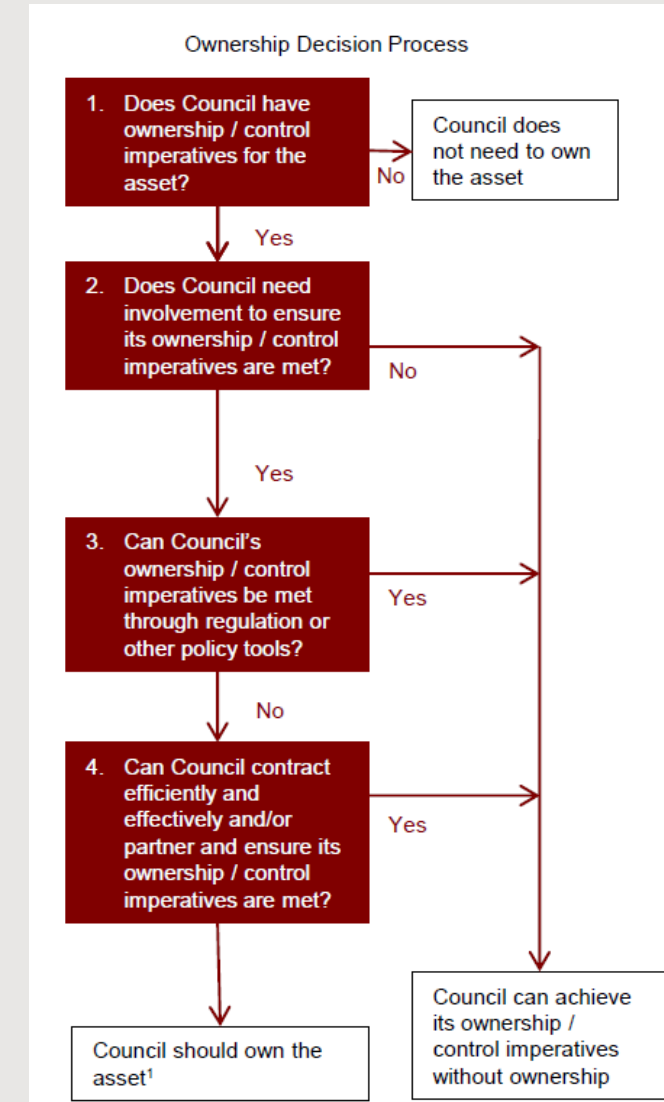
While the policy does not include any ownership / control imperatives we can look at likely imperatives and apply the framework:

- **Key regional asset** - ensure development and management of infrastructure is fit for purpose, timely and meets customer needs
- **Monopoly asset** - ensure powers not abused
- **Externalities** - ensure powers not abused
- **NZ ownership** - maintain NZ control



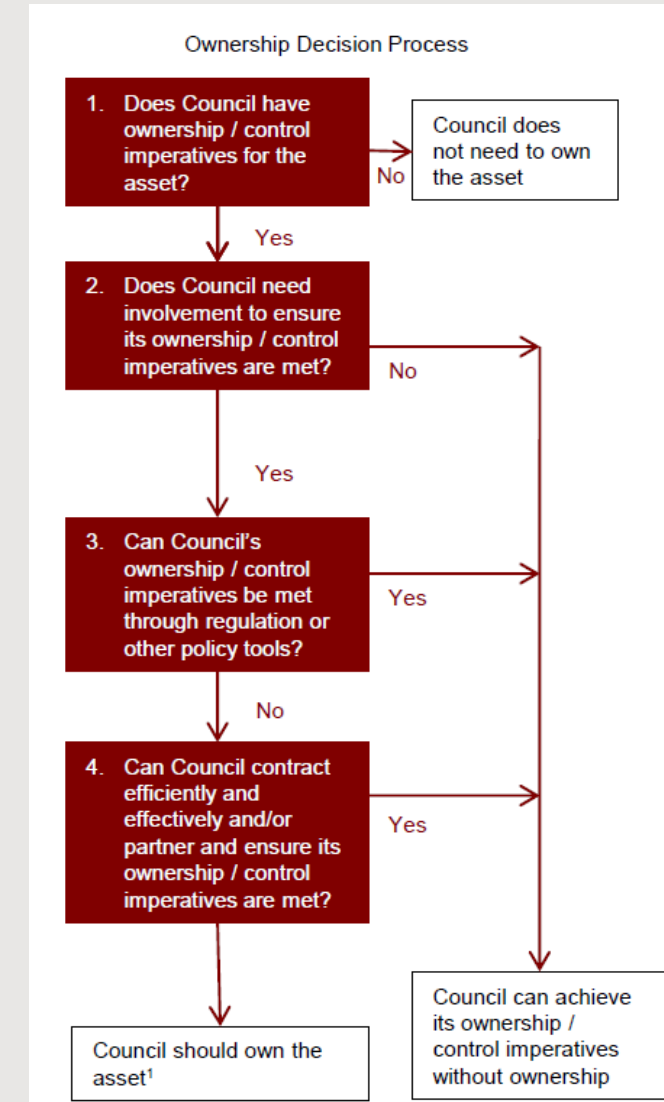
## Step 2. Does the council need involvement to ensure its ownership / control imperatives are met?

Imperative	Assessment	Reasoning
<b>Key regional asset</b>	No	Commercial incentives will be aligned under private ownership
<b>Monopoly asset</b>	No	Aeronautical business subject to regulatory oversight at a national level
<b>Externalities</b>	Yes	<i>Proceed to next step</i>
<b>NZ ownership</b>	No	Subject to OIO oversight. Government has previously blocked an overseas bidder (CPPIB) from acquiring a controlling stake



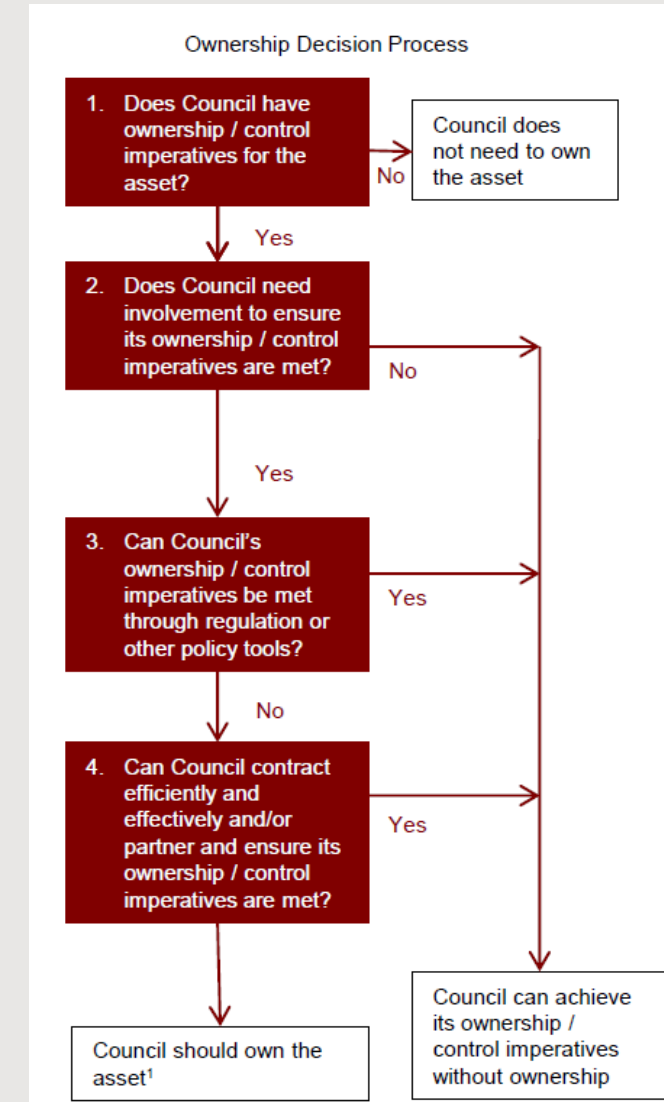
## Step 3. Can the council's imperatives be met through regulation or other policy tools?

Imperative	Assessment	Reasoning
<b>Key regional asset</b>	N/A	<i>Imperative addressed at Step 2</i>
<b>Monopoly asset</b>	N/A	<i>Imperative addressed at Step 2</i>
<b>Externalities</b>	Yes	District planning, licensing and consenting functions provide constraints
<b>NZ ownership</b>	N/A	<i>Imperative addressed at Step 2</i>



## Step 4. Can the council contract and/or partner to ensure imperatives are met?

Imperative	Assessment	Reasoning
<b>Key regional asset</b>	N/A	<i>Imperative addressed at Step 2</i>
<b>Monopoly asset</b>	N/A	<i>Imperative addressed at Step 2</i>
<b>Externalities</b>	N/A	<i>Imperative addressed at Step 3</i>
<b>NZ ownership</b>	N/A	<i>Imperative addressed at Step 2</i>



# Ownership/control imperative assessment

While the council has not identified specific imperatives for ownership/control of the asset an assessment has been made on four different potential reasons.

The assessment has found that these outcomes can be satisfactorily achieved through other mechanisms such as commercial incentives or regulation from central or local government.

In the absence of a strategic control imperative:

- The ownership is simply a financial investment earning a market return
- There is almost certainly a higher value use for that scarce capital than simply earning a market-level financial return
- The council should consider this opportunity cost when making a decision to retain AIAL shares.





# Control and influence of a company

If not specifically addressed in contractual arrangements that bind shareholders, the impact of different levels of ownership for a listed company such as AIAL include:

- **>10%** “Blocking stake”
  - shares cannot be compulsorily acquired under a takeover (following the NZX takeovers code)
- **>25%** Block special resolutions or schemes of arrangement
  - these are required to adopt or change a constitution; approve a major transaction; approve an amalgamation of the company; or put the company into liquidation
  - Schemes of arrangement would allow (with consent of the court) a takeover and compulsory purchase of shares (under Companies Act)
- **>50%** Control of the board, strategy, business plan etc.
- **100%** Complete control over business plan including pursuit of non-value maximising objectives



# Council control and influence of AIAL

Auckland Council's 18% shareholding means:

- No direct rights to appoint Board members
- No super decision rights to control the Board or the activities or business plan of the company

There is little scope for conflict between private sector ownership and public objectives in regard to the airport's business plan, therefore council's shareholding does not appear to be linked to any need to influence or control the business plan of AIAL



# Does the council add value to AIAL as a shareholder

Consideration	Assessment
Does the council bring specific expertise to the table? (airport or aeronautical)	No
Do we have spare capital to support future AIAL growth initiatives? (such as through additional share issues)	No
Do we add to the liquidity of AIAL shares? (generally companies would like to see more trading or flow in their shares to encourage more participation from larger investors who know they can easily exit their stake without significantly moving the market)	No (we are a “buy and hold” investor)

**The overall assessment is that the council does not add value to AIAL as a shareholder.**



# Climate change consideration

The Global aviation industry produces around 2% of human-induced carbon dioxide (CO<sub>2</sub>) emissions. Aviation is responsible for 12% of CO<sub>2</sub> emissions from all transport sources, compared with 74% from road transport\*.

Auckland Airport has been measuring and reporting its carbon footprint since 2007. In 2017, it was the first airport in the world to set a target under the Science-Based Targets Initiative, commensurate with a 2°C warming pathway.

AIAL has set a pathway to reach Net Zero carbon emissions by 2030. This means reducing its scope 1 and 2 emissions as far as is feasible, which will be achieved by:

- Phasing out the use of natural gas in the terminal
- Electrifying our corporate vehicle fleet
- Using refrigerants with the lowest GWP possible
- Using 100% renewable electricity.

In 2030, should there be any residual emissions these will be neutralised by the purchase of certified carbon removals. Council does not include AIAL's greenhouse gas (GHG) emissions in its annual report and Auckland's Climate plan .



# Climate related risks and opportunities

The impacts of climate change, including rising sea levels, higher temperatures and increasing frequency and severity of storm events and high winds, could have negative effects on the infrastructure and property assets of Auckland Airport.

In addition, climate change policies enacted globally and domestically could affect aviation activities, which could have a negative impact on AIAL financial performance.

Auckland Airport's contribution to climate change solutions will present new opportunities also. These include lowering operating costs by reducing energy consumption, as well as designing and building sustainable buildings to attract tenants.



# Financial assessment



# Financial investment strategy

Is a financial investment appropriate use of council funding?

If so, what sort of financial investment strategy should be undertaken?

If the council chooses to make financial investments they should be managed on the basis of:

- Focus on return
  - Requires active management – ready to buy or sell different assets to maximise return, assets not held in perpetuity
- Diversification
  - Different asset types – multiple equities, bonds etc
  - Avoid geographical concentration – all of Auckland Council's other assets and associated risk is focused in Auckland. If there was a natural disaster local asset-related equities would also be impacted.



## Current market valuation

- Auckland Council holds 266,328,913 shares in AIAL
- The closing market price on 9 November 2022 was \$7.46 per share
- The current market value of the shareholding is approximately \$2 billion





# How investors look at value / terminology

Enterprise multiple, also known as the EV-to-EBITDA multiple, is a ratio used to determine the value of a company. It is computed by dividing enterprise value by EBITDA.

Investors mainly use a company's enterprise multiple to determine whether a company is undervalued or overvalued. A low ratio relative to peers or historical averages indicates that a company might be undervalued and a high ratio indicates that the company might be overvalued.

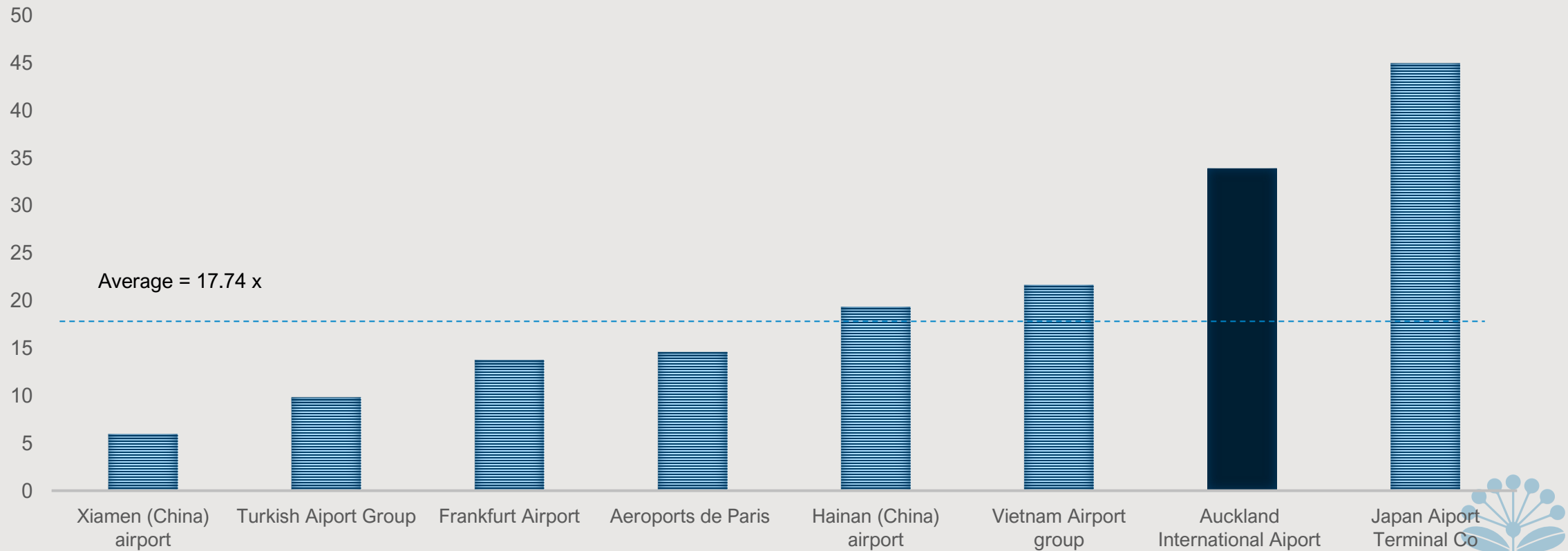
An enterprise multiple is useful for transnational comparisons because it ignores the distorting effects of individual countries' taxation policies.



# Comparison with other listed airport companies

Using the projected earning outlook for FY23, the current market valuation of AIAL is high relative to its international peers

## EV/EBITDA FY23



# Options for the council



# Options for consideration and assessment

## Maintain existing shareholding

- 1A Continue to receive cash dividends
- 1B Ongoing investment to maintain existing shareholding percentage

## Increase shareholding

- 2A Purchase shares to increase holding to 25% of issued shares
- 2B Purchase shares to increase holding to above 50% of issued shares

## Decrease shareholding

- 3A Immediately sell full shareholding
- 3B Immediately sell a portion of the holding
- 3C Gradually reduce the holding over a period



# Options 1A – Maintain existing shareholding

If the council maintains the existing number of shares and receive its full dividend entitlement each year in cash then:

- The projected financial return will be unchanged from existing budgets (noting the latest update to reduce FY24 to \$39m)

(\$millions)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Projected dividend	39	49	63	73	75	76	78	79

- The council's share of the total issued shares will gradually be eroded as other investors participate in dividend reinvestment plans and other capital raising initiatives. The above dividend projections exclude the impact of this dilution.



# Options 1B – Ongoing investment to maintain existing shareholding percentage

To maintain the current 18.09% shareholding in AIAL, the council would need to:

## 1. Participate in the AIAL dividend reinvestment plan (DRP)

- In 2019 22.3% of shareholders participated in the DRP.
- To maintain the shareholding percentage in this year the council would have needed to reinvest 22.3% of the dividends it received (\$13.2m).
- If shareholders continued to participate at this level net dividends would be reduced as below.

(\$millions)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Gross dividend	39	49	63	73	75	76	78	79
Net dividend after reinvestment	30	38	49	57	58	59	60	62

## 2. Participate in any other capital raising initiatives

- In order to maintain a balance of investment sources as it continues to grow AIAL is likely to look for additional equity investment alongside growth in debt.
- To maintain our existing shareholding percentage the council would need to participate in all equity raising initiatives.

## 3. Purchase shares to offset impacts of issuances for programmes such as employee share scheme



## Option 2A – Increase holding to 25% of issued shares

If the council wants to gain a “Blocking stake” for future schemes of arrangement, it will need to lift the current shareholding to 25% of issued shares, which requires the council to purchase additional 101,842,550 shares.

**Cost: \$760 million** (share price as at 9 Nov 2022)

We assume this will be debt funded and the interest cost and estimated cash dividends are outlined in the table below.

(\$millions)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Additional interest cost	35	35	35	36	36	37	37	38
Estimated dividends	(15)	(19)	(24)	(28)	(29)	(29)	(30)	(30)
<b>Annual funding requirement</b>	<b>20</b>	<b>16</b>	<b>11</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>

To maintain the 25% stake the council would need to reinvest dividends and participate in capital raising as in option 1B



## Option 2B – increase holding to 50% of issued shares

If the council wants to control of the AIA board, strategy and business plan, it will need to lift the current shareholding to 50% of issued shares, which requires the council to purchase additional 470,014,012 shares.

**Cost: \$3.5 billion** (share price as at 9 Nov 2022)

We assume this will be debt funded and the interest cost and estimated cash dividends are outlined in the table below.

(\$millions)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Additional interest cost	162	162	163	165	168	169	172	175
Estimated dividends	(69)	(87)	(111)	(129)	(132)	(134)	(137)	(140)
<b>Annual funding requirement</b>	<b>93</b>	<b>75</b>	<b>52</b>	<b>36</b>	<b>36</b>	<b>35</b>	<b>35</b>	<b>35</b>

To maintain the 50% stake the council would need to reinvest dividends and participate in capital raising as in option 1B





# Divestment options

If the council chose to reduce its shareholding there are a number of options available to it:

- A. It could look to immediately sell the full shareholding
  - Even though the large shareholding could not be sold immediately “on market”, with usual transaction costs it could be sold off market
- B. It could look to immediately sell a portion of the holding
  - For example 8%, reducing the holding to just over 10%
  - Would still incur transaction costs (potentially less than above)
- C. It could look to gradually reduce the holding over a period
  - For example reduce by 8% over a period of three years
  - This option could, more likely, be done “on market” and avoid transaction costs



# Option 3A – Immediate full sell-down

The table below sets out the indicative impact on Council funding from divesting all of the AIAL shareholding and using the proceeds to repay group borrowing.

**Sale proceeds: \$1.887 billion** (share price as at 9 Nov 2022 & assuming transaction costs of 5%)

Assumptions:

- Dividend flow based on equity analyst reports and historical div growth assumptions (2%)
- Interest rates as per latest projections

(\$millions)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Interest cost savings	87	87	88	89	90	91	93	94
Estimated dividends foregone	(39)	(49)	(63)	(73)	(75)	(76)	(78)	(79)
<b>Net funding impact</b>	<b>48</b>	<b>38</b>	<b>25</b>	<b>16</b>	<b>16</b>	<b>15</b>	<b>15</b>	<b>15</b>



## Option 3B – Immediate partial sell-down

The table below sets out the indicative impact on Council funding from divesting 8% of the AIAL shareholding and using the proceeds to repay group borrowing.

Would leave the council with just over 10% of the shares – enough to block a compulsory takeover. This would only be needed if a block was not enacted by regulatory bodies such as the OIO.

**Sale proceeds: \$852 million** (share price as at 9 Nov 2022 & assuming transaction costs of 3%)

Assumptions:

- Dividend flow based on equity analyst reports and historical div growth assumptions (2%)
- Interest rates as per latest projections

(\$millions)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Interest cost savings	39	39	40	40	41	41	42	42
Estimated dividends foregone	(17)	(22)	(28)	(32)	(33)	(34)	(34)	(35)
<b>Net funding impact</b>	<b>22</b>	<b>18</b>	<b>12</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>7</b>

To maintain the 10% stake the council would need to reinvest dividends and participate in capital raising as in option 1B



## Option 3C – Gradual, partial sell-down

The table below sets out the indicative impact on Council funding from divesting 8% of the AIAL shareholding and using the proceeds to repay group borrowing.

**Sale proceeds: \$879 million over three years** (share price as at 9 Nov 2022 & assuming no transaction costs)

Assumptions:

- Dividend flow based on equity analyst reports and historical div growth assumptions (2%)
- Interest rates as per latest projections

(\$millions)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Interest cost savings	14	27	41	41	42	42	43	44
Estimated dividends foregone	(6)	(15)	(28)	(32)	(33)	(34)	(34)	(35)
<b>Net funding impact</b>	<b>8</b>	<b>13</b>	<b>13</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>

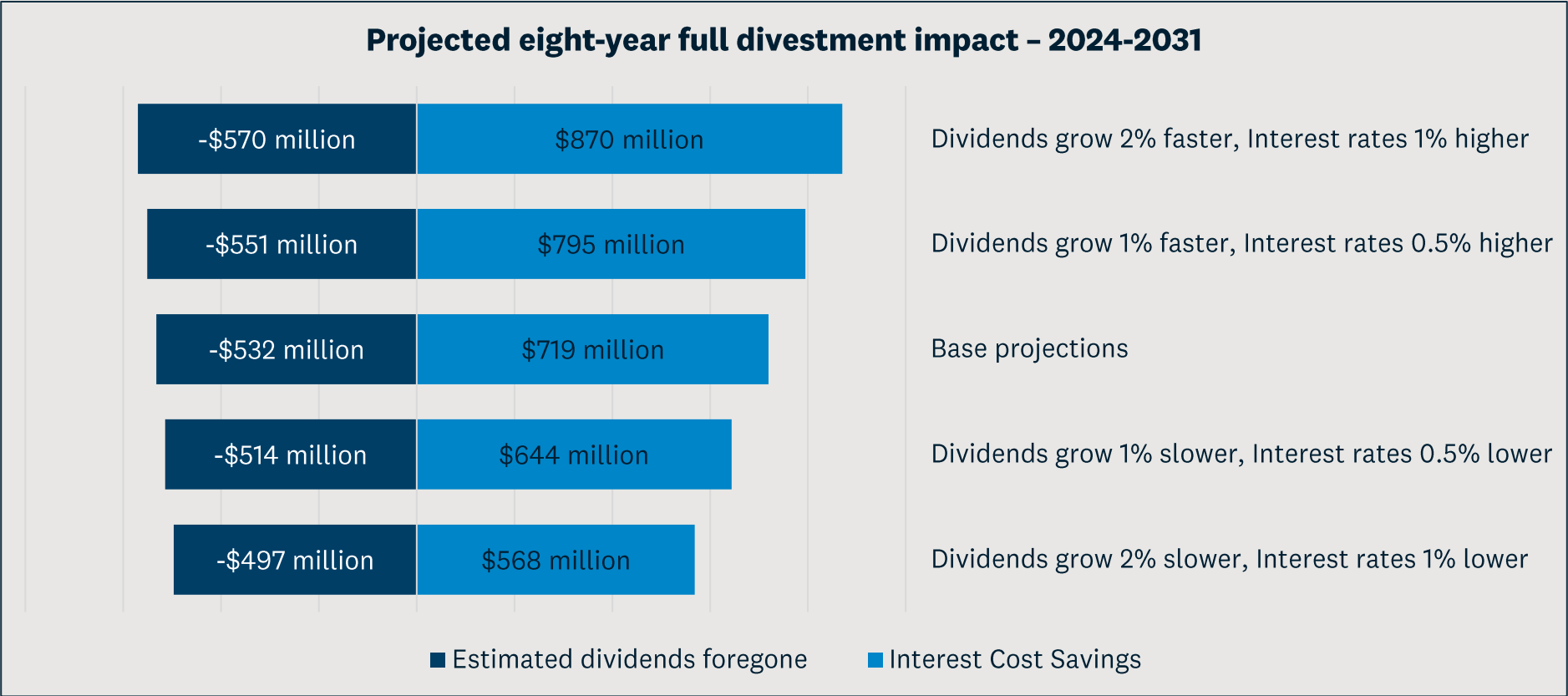


# Sensitivity analysis

Both returns from equity investments and debt financing costs are naturally uncertain.

In the current economic environment levels of uncertainty are very high.

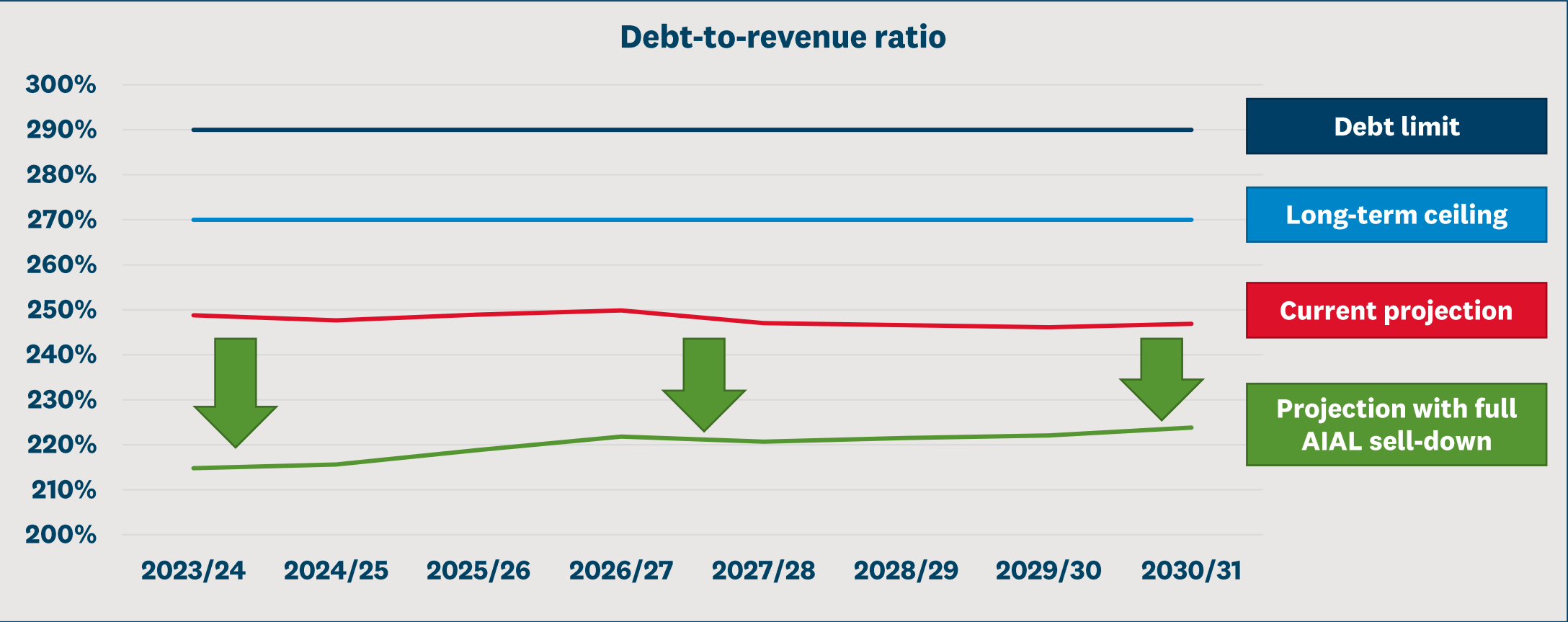
The chart below considers the potential impacts of different levels of dividend growth and different interest rates across the next eight years on full sale of shares in AIAL. This shows that only with interest rates 1% lower than market forecasts and with dividends growing 2% faster than expected does a full divestment not have a positive budgetary impact.

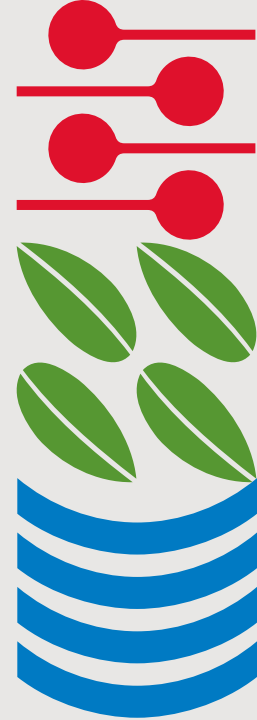


# Impact on council borrowing position

If the council were to adopt option 3A (full sell-down) then the council’s projected borrowing position at the end of the 2023/2024 year would reduce from around \$13 billion to around \$11 billion.

The corresponding impact on our debt-to-revenue measure (assuming this headroom is not respent on other assets) is shown below.





# Summary and conclusion

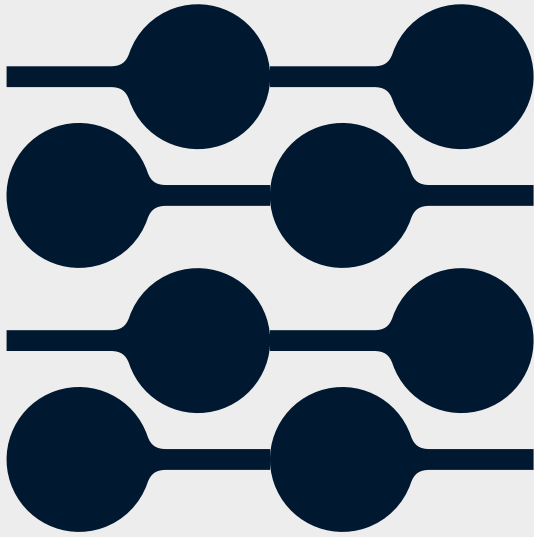


## Key findings - AIAL

- No clear strategic imperative for ownership or control
- Best analysis and independent advice is that the shares are currently valued appropriately
- Holding these shares does not represent a best practice approach to financial investment
- Investing ratepayer funds in equity markets presents opportunity costs and exposure to commercial risks
- Divesting some or all of the shares would present opportunities to make better progress for council strategic outcomes







# **Appendix E: Auckland Council and CCO Fact Sheets**



# Contents

Auckland Council .....	
Regional services .....	3
Regional grants .....	5
Local board funding .....	6
Open space and stormwater maintenance services .....	8
Group shared services, and strategies, policies and plans .....	10
Early Childcare Education .....	12
Tātaki Auckland Unlimited .....	
Regional facilities and economic development .....	13
Auckland Transport.....	
Public Transport fares .....	15
Public Transport Services .....	16
Eke Panuku.....	
Capex deferrals and opex reductions .....	18

# Auckland Council – Regional Services

## Proposal

An ongoing \$20 million cost reduction from 2023/2024 across a range of regional services that may include the following activities:

- Arts programmes
- Education programmes
- Regional events
- Community programmes and social services
- Community safety programmes
- Economic development and employment

The cost reduction may be achieved through better leveraging central government funding or user pays funding for these activities, reducing the service level, by stopping the activity or identifying a different delivery method or agency.

## Decision type

**For public consultation**

## Proposal details

Regional services are activities designed to support strong, healthy and safe communities, and create a city with great neighbourhoods, parks, and public spaces loved by Aucklanders. Auckland Council also works alongside iwi, mana whenua, communities, schools, other agencies and landowners to protect and enhance the natural environment.

Some of the regional activities are considered 'could do' or 'should do' under our Service Prioritisation Framework. Many of these services are already partially funded by central government and could be delivered or funded by external parties which would reduce the council's operating expenditure, size and complexity.

Some or all of the following activities are proposed to be reduced, stopped or alternative funding sources found to a total of \$20 million. Alternatively some services maybe delivered differently or reprioritised to those most in need.

Opportunity	Proposed services for potential changes
Programmes	<ul style="list-style-type: none"><li>• Support for arts centres and fewer council-funded programmes</li><li>• Public arts</li><li>• Regional events e.g., Music in Parks, Movies in Parks, Ambury Farm Day</li><li>• Leisure programmes like group fitness, outdoor experience, non-core programming</li></ul>
Education services	<ul style="list-style-type: none"><li>• Sustainable Schools programme</li><li>• Low Carbon Living programme</li><li>• LTP climate package behaviour change initiatives, such as targeted community sustainability initiatives</li><li>• Literacy programmes</li><li>• COMET</li></ul>
Justice or police	<ul style="list-style-type: none"><li>• Community safety activities</li></ul>
Economic development and employment	<ul style="list-style-type: none"><li>• Social procurement programmes</li><li>• Maori and Pasifika employment and business support programmes</li><li>• Social innovation</li><li>• Economic development research supporting economic transformation in south and west Auckland</li><li>• Youth employment programmes</li></ul>
Other social activities	<ul style="list-style-type: none"><li>• Funding provided to community led centres, arts, rural halls, rural libraries and partners for community activation.</li><li>• Homelessness coordination and initiative funding</li><li>• Community empowerment activities</li><li>• Youth centres grants</li><li>• Citizens Advice Bureau</li></ul>

## Service prioritisation framework assessment

### Primarily 'Could do' with some 'Should do'

Activities in community programmes, economic development and employment, and the social space provide additional and improved services for residents and communities over and above the services provided by central government and other agencies. Activities which are linked to Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan and community safety are considered of very high importance but these activities could be refocussed to areas of greatest need.

## Financial implications

To reduce operating expenditure by \$20 million for 2023/2024 and future years, either through leveraging additional funding opportunities or reducing/stopping/transferring service provision.

## Service level and community implications

Depending on the extent to which additional external funding can be obtained, communities within Auckland will be affected by the reduction of services and activities, especially those who have a greater reliance on the services outlined in this proposal or who may be economically disadvantaged.

Consultation and public feedback as part of the annual budget process will better inform us of the proposed community implications.

## Implementation and risks

Reduction or cessation of the services in the social, education and economic development and employment area may result in external funding losses and require amendments to agreements with central government agencies. Reduction or cessation of some education programmes may have some impact on climate action or youth literacy. Reduction in some community safety or local economic initiatives may result local community safety concerns. Reversal of some historical council and local board service level decisions may also be required. Consultation would be required with affected staff.

A prioritisation approach is recommended, so that communities of greatest social and economic need may continue to receive some support and/or benefit from greater central government funding uplifts.

# Auckland Council – Regional Grant Funding

## Proposal

Discontinuing all general rates funded, regional contestable grants.

## Decision type

**For public consultation**

## Proposal details

Reduce the role of council as a funder for community grants by reduction and cessation in the following activities to improve alignment with the Grants policy and the Auckland Plan.

**Contestable regional grants** including:

- Regional Community Development: local projects and operational costs of community organisations
- Regional Events Grant - supports diverse strategic events that showcase Auckland, build regional pride and identity, inspire a sense of community belonging and stimulate economic activity
- Regional Arts and Culture Grant - builds the sustainability of organisations through developing business plans, digital participation in arts and culture, helping create a robust and flourishing creative economy
- Environment and Natural Heritage Grants - protection, restoration and enhancement of regionally significant natural heritage areas
- Historical Heritage Grant - Conservation of built heritage assets.

**Community grants funding:** to organisations that deliver community activities and services including galleries, youth and sports programmes, arts and events, homelessness initiatives and other community activities.

## Service prioritisation framework assessment

### Could do

The allocation of grants funding supports the provision of additional services by our communities and is not required by law.

## Financial implications

If this proposal is adopted, operating expenditure will be reduced by \$8 million for the financial year 2023/2024.

## Service level and community implications

A reduction in funding will result in fewer activities and services mentioned above. Communities within Auckland will be affected by the reduction of services and activities, especially those who have a greater reliance on those outlined in this proposal.

Consultation and public feedback as part of the annual budget process will better inform us of the proposed implications to community organisations, service levels and the community.

## Implementation and risks

Engagement with relevant community groups will help mitigate any reputational risks. Grant recipients that regularly rely heavily on council funding may need to adjust or close their operations or seek alternative funding providers to mitigate financial challenges.

# Auckland Council – Local Board Funding

## Proposal

Reduce the total operational funding allocation for local boards by 5 percent, which equates to a \$16 million reduction.

## Decision type

**For public consultation**

## Proposal details

The Governing Body determines the size of the total local board funding envelope, and it is then allocated to local boards based on the Local Board Funding Policy. Aotea Great Barrier and Waiheke local boards are provided budget to fund discretionary activities as agreed in their Local Board Agreements. For all other local boards, the remaining discretionary funding (Locally Driven Initiatives, or LDI) is allocated out based on population, deprivation level, and local board land area.

The total current projected funding for local boards for the 2023/2024 year is around \$300m. Staff are proposing that \$16m of operational savings can be achieved by a 5 percent reduction in the total funding allocated to local boards.

Local boards may choose to reduce their allocated funding for LDI as these projects are more discretionary in nature. In 2023/2024, \$33 million is currently budgeted for LDI opex. This funding is provided to Auckland Council's 21 local boards to fund initiatives such as local events, community grants, community and environmental programmes, feasibility studies, and level of service increases. Alternatively local boards can consider reductions to their asset-based services budgets through changes in levels of service or increases to revenue through amendments to fees and charges under their delegation.

As part of this Annual Plan process, council staff considered options to give local boards further increased decision-making over all components of local board funding (also known as bulk funding). This would provide more flexibility for any required funding reductions in local board budgets. Staff considered that while these options should continue to be progressed, they were unlikely to be able to be implemented in the 2023/2024 year due to the level of engagement required with the community and local boards. An amendment to the Local Boards Funding Policy would also be required to implement this change and this would require an LTP amendment.

Therefore, staff have proposed that bulk funding options be investigated and implemented for the 2024/2025 year onwards.

## Service prioritisation framework assessment

### Could do

Local board funding provides services and outcomes for our customers and communities, specifically targeted towards each local board area. Services that are considered to be “must do” will continue to be funded by local boards.

## Financial implications

The proposal would reduce operating expenditure requirements by \$16 million for 2023/2024 only, with wider local board funding options investigated and implemented for 2024/2025 onwards. The allocation of the \$16 million reduction between boards is proposed to be made in accordance with the approach used for setting LDI funding levels.

To enable local boards to partially offset their share of the \$16 million reduction in opex funding, staff are proposing an amendment to the Community Occupancy Leasing Guidelines. The amended guidelines would provide the local boards with greater discretion to adjust the maintenance and administration costs recovered in community leases to better reflect the actual costs of maintenance and administration where appropriate.

The increased revenue would provide an alternative source of funding for maintenance and administration costs presently funded from general rates and would be available to those local boards who had raised the fees. This would provide them with additional revenue to supplement their funding and partially offset the impact of opex reductions.

Other proposals for this Annual Budget, such as the proposal to reduce open space maintenance service levels across the region, could have some further impacts on overall local board budgets.

## Service level and community implications

Decisions on allocation of local board opex funding will need to be made by each local board. Local board opex is generally used to fund community, environmental, and planning and development activities, so any implications from reduced funding would mainly be in these areas.

## Implementation and risks

If this proposal is adopted by the Governing Body, local boards will make final work programme decisions about which items to prioritise and fund in June 2023. At this stage, we have identified four operational risks related to a reduction in local board opex funding:

- Included in the local board opex budgets for each local board is funding for staff in the Community Services Support model, which helps deliver programmes for Connected Communities, Events and Youth activities. There is a risk that with reduced funding, this function may not be deemed a priority by local boards, which could have a direct impact on staff.
- Community organisations who receive local board opex funding often provide services and outcomes in the community that are not directly provided by council and rely on a number of funding sources to operate. There is a risk that with reduced funding, any pause or stopping of these activities could be permanent and this would leave a gap in the provision of services in the local community.
- Local boards provide a level of certainty to partner organisations through funding agreements, with some larger activities requiring long-term funding agreements that span over multiple years. There is a risk that local boards who have entered into long term funding agreements may have already committed budgets in 2023/2024 and will not have the ability to make the required reduction in their funding.
- During the Recovery Budget, we highlighted that our ageing asset base will demand increasing levels of investment, and this is not financially sustainable. Council proposed a new approach where we will use alternative ways of delivering services, through partnerships, digital channels and multi-use facilities. There is a risk that any short-term reduction to local board funding will not be consistent with this long-term financially sustainable approach.

If the council is unable to progress bulk funding options for the 2024/2025 year, the council will either need to reduce local board opex once again, find an alternative cost reduction option or pull another lever.

# Auckland Council – Open space and stormwater maintenance services

## Proposal

Optimisation and reduction in open space levels of service (LOS) delivered through the Parks and Community Facilities full facility maintenance contracts. Specific areas include rationalisation and optimisation of rubbish bins and reducing levels of service in garden and turf maintenance.

Reduction to the budget of stormwater reactive maintenance through improved budgeting and minor capital expenditure.

## Decision type

**Governing Body decision for implementation under delegation to the Chief Executive**

## Proposal details

The proposal for changes to open space levels of service applies to regional and local assets.

- **Optimisation of bins:** A rationalisation exercise targeting a regionwide 30% reduction in the number of bins. Across the region there are currently over 10,000 bins.
- **Garden levels of service reduction:** Reducing LOS of garden maintenance for 80% of gardens across the region.
- **Turf level of service reduction:** Reducing LOS of grass mowing, which would result in grass being slightly longer (around 25mm).
- **Stormwater reactive maintenance** budget reduction as reactive maintenance is currently budgeted at above long-term average levels to allow for a higher number of large storm events in some years. Alongside minor additional capital expenditure of \$1 million, reactive maintenance needs can be reduced and the budget can be better managed.

## Service prioritisation framework assessment

### Could do

While open space maintenance generally is a “must do” activity in order for parks, playgrounds, sports fields and town centres to be able to be enjoyed, there are areas of discretion over the extent of certain aspects of maintenance. The areas identified for optimisation and service level reductions are not required by law or to deliver key strategic priorities and are therefore considered “could do” activities. The identified areas are those with the least impact on customers, have the highest potential for savings contributions and lowest risk for council.

## Financial implications

Annual savings ranging from \$7 million in 2023/2024 to \$9 million from 2024/2025 onwards.

## Service level and community implications

- **Optimisation of bins:** working with local boards and communities would enable the removal of bins that are not required. The focus would be bins that are located in areas of close proximity to each other or low usage areas, high use areas will not be impacted. The full facility contracts include requirements to pick up loose litter, which ensure that public spaces are tidy and hygienic thereby minimising the impact of this change.
- **Garden levels of service reduction:** reducing LOS of garden maintenance will increase the visibility of some weeds, however gardens will still appear maintained. High profile gardens would be excluded.
  - **Turf level of service reduction:** The proposed reduction in grass mowing will not impact the ability for people to use and enjoy open space and will not impact the type of activities or services grassy areas are currently used for.



- Overall reduction in maintenance activities may contribute to a reduction in carbon emissions.
- The proposed reduction in the stormwater reactive maintenance does not affect service levels as it is only a change to the way the service is budgeted for.

### **Implementation and risks**

- Although the change in use of parks and open space will be minimal, the expectations on amenity and visual values may be observed, which could lead to an increase in customer complaints. This can be mitigated through clear communications through the Annual Budget process.
- There will be implementation costs to remove bins which will reduce the stated savings in the period of implementation. This is likely to be spread between 2022/2023 and 2023/2024 financial years.

# Auckland Council – Group Shared Services, and strategies, policies and plans

## Proposal

Prioritise and urgently progress opportunities across the Auckland Council Group to enable both short and long-term efficiencies as follows:

1. Accelerate work on shared services across the Auckland Council Group (including the urgent implementation of a shared service construct to deliver savings in 2023/2024, while longer-term system and process changes continue in parallel);
2. Urgently progress work to consolidate corporate office space across the Auckland Council Group; and
3. Urgently progress work to reduce the number of strategies, policies and plans across the Auckland Council Group by simplifying and consolidating strategy and policy activity.

## Decision type

**For implementation under delegation, and inclusion as appropriate in relevant council-controlled organisation Statements of Intent.**

## Proposal details

### *Auckland Council Group shared services*

Some immediate savings can be achieved in 2023/2024 through shared service implementation in areas such as corporate accommodation, fleet, procurement, human resources, health and safety, engagement and communications.

Further savings can be delivered through system and process changes, including ICT elements. Work on this could proceed with urgency but may take longer for benefits to be realised.

This is supported by work over the last year, including a feasibility assessment by Auckland Council and council-controlled organisations assessing internal support services to see whether more services might be shared across the group.

### *Auckland Council Group corporate office space consolidation*

Since COVID-19 restrictions were removed, the utilisation (and decrease in use) of corporate buildings across the group have been monitored to inform any optimisation decisions. Now that a baseline in utilisation has been identified, work is progressing across the group on options for consolidation of the group corporate office portfolio to ensure the most efficient use of space, and to maximise any commercial return on the space.

### *Auckland Council Group strategies, policies and plans*

Over time, the number of strategies, policies and plans developed across the group has increased. The proposal is to urgently consolidate this activity and the number of those strategies, policies and plans to reduce the overall number. This will simplify the wider strategies, policies and plans landscape and therefore also target, prioritise and reduce the necessary investment.

## Service prioritisation framework assessment

Not relevant for this item.

## Financial implications

Cost reductions from the above initiatives are estimated at \$5 million for 2023/2024 rising to around \$10 million for 2024/2025.

## Service level and community implications

Progressing these opportunities across the Auckland Council Group enables more efficient and effective service delivery for Auckland.

## Implementation and risks

Collective leadership by the Auckland Council Group Chief Executives supported by a clear political mandate will be critical to drive the necessary pace and collaboration across the group to deliver on these savings.

# Auckland Council – Early Childhood Education (ECE)

## Proposal

Auckland Council currently provide Early Childhood Education services (ECE) across ten sites and five local board areas. For the financial year 2021/2022 the service operated at a loss of \$0.2 million before contribution to overhead and assumed rent costs, or an estimated total loss of around \$1 million. It is proposed that the council discontinues being a direct provider of this service and earns a commercial return from the premises.

## Decision type

For implementation under delegation

## Proposal details

- There are a range of options in order for council to discontinue the direct provision of ECE services which should be investigated and may be applied differently for each ECE centre. These include the potential of selling the operations to another provider to take over on a commercial basis, through to closure of a centre.
- Any decision regarding the ten ECE centres operated by the council under the Kauri Kids brand will be made following appropriate engagement with relevant local boards and affected customers and consultation with staff as to how and when to discontinue the direct provision of the service.
- The primary opportunity is for council to reduce operating losses from this activity and earn a commercial return on the lease of the premises.
- Alternative ECE service operating models have been reviewed. Stopping being a direct provider of the service better aligns to strategic priorities, simplifies the council operations and delivers better long-term value for money. It also requires less effort and is less complex to implement than alternative ECE service delivery options.
- Although ECE services are a locally delivered activity, a Governing Body decision would be required to cease the direct provision of the overall activity.

## Service prioritisation framework assessment

### Shouldn't do

The ECE market in Auckland is well-established with over 1,400 centres and in some areas the market is saturated or is facing staffing shortfalls that could benefit from provider consolidation. The service can likely be delivered by other providers more efficiently than the council.

## Financial implications

Discontinuing the direct provision of ECE services and earning commercial lease revenue from the premises is estimated to reduce ongoing net costs by around \$1 million per year. One-off implementation costs and potential commercial lease revenue have not yet been estimated.

## Service level and community implications

Discontinuing the direct provision of the service will have no impact on LTP performance measure results.

As implementation options are investigated and assessed, staff will mitigate disruption to the current enrolment and keep customers informed.

## Implementation and risks

The implementation plan will include appropriate engagement with relevant local boards and affected customers and consultation with relevant staff. Ensuring alignment of staff and customer levels through the period of implementation may need to be managed by sequencing of transition of service.

# Tātaki Auckland Unlimited – Regional facilities and economic development

## Proposal

Reducing \$27.5 million in council funding through a comprehensive programme of operational efficiencies, including driving revenue opportunities and prioritisation of focus across the entire organisation. This will impact on service delivered through facilities, destination and visitor attraction, and economic development related activities.

## Decision type

### For implementation under delegation

- Organisation-wide efficiency programme.

### For public consultation

- Reduction in funding for regional facilities.
- Reduction in funding for economic development related activities.

## Proposal details

In response to the operating funding gap the council group is facing, TAU identified a range of indicative actions to achieve \$27.5 million of reduction in funding without triggering significant service change, these include:

- New revenue and cost saving opportunities identified from the merger.
- Identification of diversified revenue opportunities via enhanced service offerings and sponsorship activities.
- Review pricing, opening hours, staffing costs and programming at regional facilities to reduce rate payer funding contribution requirements.
- Reduce subsidised access to facilities and events.
- Develop industry funding models to support ongoing destination activity.
- Reduction in overheads through greater use of shared services opportunities, reduced spend on office costs, non-essential travel and corporate costs.
- Implement Single Stadium Operator model to deliver efficiencies.
- Review activity not directly related to delivery of key performance measures including policy advice and administrative support of non-TAU facilities.
- Refinement of targeted initiatives, projects and programmes within TAU.
- Review of involvement in delivery of programmes and advisory activity in relation to economic development.

## Service prioritisation framework assessment

### Could do

Tātaki Auckland Unlimited (TAU), as Auckland's economic and cultural agency, promotes Auckland as a thriving destination and contributes to local economic development to our region.

One of TAU's key activities is to manage and operate regional facilities such as the Zoo, Art gallery, Maritime Museum, Stadiums and Auckland Live to enhance Auckland as a culturally vibrant city for all Aucklanders.

TAU also undertakes to enhance social, cultural, economic and environmental outcomes for the Auckland region and align with various council strategies and plans such as the Development Strategy and Economic Development Action Plan 2021-2024.

To prioritise in response to the financial challenge that the council group faces, we should do these activities only to the extent we can afford and things that deliver the most value.

## Financial implications

The above indicative options would achieve \$27.5 million reduction in operating funding via a combination of increasing external revenue and decreasing internal expenditure.

## Service level and community implications

There would be minor but noticeable reduction in operational services but no significant change in service levels, however there is expected to be detrimental impact on equity of access for Aucklanders.

### **Implementation and risks**

If the proposal is approved by the Governing Body, more work will be required to investigate these indicative options to further engage with the Board to finalise the specified options for implementation.

If some of the indicative options don't get agreed by the Board alternative options will need to be identified to make up the planned level of funding reduction.

# Auckland Transport – Public Transport fares

## Proposal

Increasing public transport (PT) fares in line with inflation to increase revenue projections by \$4.5 million. The current budget assumes a 4% increase in fares is implemented in the 2022/2023 financial year.

## Decision type

**For implementation under delegation**

## Proposal details

Public transport fares have not been increased since February 2021 and have been held at reduced prices through government support. To keep up with the increased costs and mitigate some of the cumulative impacts of inflation it is proposed that PT fares be increased by 6.5% (average weighted increase) instead of the current budget assumption of 4%.

## Service prioritisation framework assessment

### Must do

Public transport services are essential services delivered by Auckland Transport which Council must do. Increasing PT fares provides an opportunity to improve value for money while still providing essential services.

## Financial implications

Increasing public transport fares in line with inflation (currently running over 7%) will increase Auckland Transport revenue by \$4.5 million.

## Service level and community implications

Increasing public transport fares will have an impact on the price and affordability of transport services. As the half price fares scheme supported by the Government ends, a 6.5% increase will have a much higher financial impact on the community and may create equity issues. This will be mitigated by the introduction of the Community Connect concession at 50% of normal fare for community services card holders.

## Implementation and risks

This AT Board have considered PT fare increases at their board meeting on 1 December 2022 and approved an increase to public transport fares by a weighted average of 6.5% to be implemented this financial year provided the Governing Body supports this increase.

# Auckland Transport – Public Transport Services

## Proposal

To hold public transport (PT) services around current levels by not reinstating all trips removed as a result of the bus driver shortage.

## Decision type

**For public consultation**

## Proposal details

Due to COVID-19 and behavioural changes PT patronage levels are currently around 67% of pre-COVID levels. The reduced demand for PT has impacted the level of revenue from PT. The current bus driver shortage is also challenging with a number of scheduled trips removed from the timetable meaning less services are being offered than was planned for in the LTP.

At the same time AT is facing significant cost escalation related to the services they provide and activities they undertake in the current high inflation environment. Increased costs are offsetting any savings from the reduced number of trips.

AT are proposing to hold PT services around current levels and not progressively reinstate all removed trips as bus drivers are attracted and recruited. AT are undertaking a network recast to improve the timetable and connectivity of services and will continue to seek further efficiencies to limit the timetable and service frequency impacts.

## Service prioritisation framework assessment

### Must do

Public transport services are an essential service delivered by Auckland Transport which Council must do. However, these essential services can be provided at lower than planned levels by holding them at current levels.

## Financial implications

Maintaining the current PT service reductions would reduce Auckland Council funding requirements by around \$21 million.

## Service level and community implications

The key implications are customers and the broader community who regularly use public transport will be impacted by these service reductions. However, as PT levels have reduced due to COVID-19 and behavioural changes, the currently operated number of services will remain sufficient to keep up with the demand of PT levels.

Reduced PT usage and reduced number of services may result in climate outcomes not being achieved compared to our previous plans. Staff will investigate the possibility of reprioritising bus services funded by the CATR to ensure that the best climate and service outcomes can be achieved based on the changes that are being proposed.

Medium and long-term outcomes for public transport will be reviewed through the next Long-term Plan and Regional Land Transport Plan.

## Implementation and risks

If this proposal is adopted by the Governing Body following public consultation, the proposed PT service reductions will be implemented by not progressively reinstating removed trips as additional bus drivers are attracted and recruited. AT are undertaking a network recast to improve the timetable and connectivity of services and will continue to seek further efficiencies to limit the timetable and service frequency impacts.

# Eke Panuku – Capex deferrals and opex reductions

## Proposal

Eke Panuku proposes service reductions for the 2023/2024 budget, consisting of capital project deferrals and operational cost savings, with a view to supporting the council group budget deficit by saving \$5 million from the planned budget. Eke Panuku will not be exiting any priority locations agreed with the council, however the scope, scale and speed of the programmes will be noticeably affected.

## Decision type

**For implementation under delegation**

## Proposal details

To maximise the impact of savings on interest costs for the next financial year (2023/2024) capital projects will need to be deferred from the current year (2022/2023).

Having addressed essential priorities and the requirement to complete our committed works this year, \$20 million can be deferred from the current year (saving \$1.1 million interest in 2023/2024).

Next year a \$36 million capital expenditure deferral is proposed, saving a further \$0.8 million of interest cost in the 2023/2024 year.

Reductions of capital expenditure to this extent will drive a review of resource requirements and a consequential reduction in operating expenditure. Eke Panuku has taken an initial review of operations across both its urban regeneration and property portfolio functions.

The impact of a reduction in capital expenditure (as above) will predominantly affect the urban regeneration programme. The scope, scale and speed of the programme will reduce across all priority locations, and this will have a visible impact on the ground. Specifically, Eke Panuku will embed savings via:

- Deferring or cancelling between 15 to 20 projects in priority locations across the regeneration programme. These will be projects that have not yet started or are in the early stages and will have the least serious impacts on communities and programmes.
- Reducing the budget for local events in town centres such as Matariki festivals, weekend workshops for kids, Christmas, and cultural new year celebrations, by half.
- Reduction in local town centre activation activities that aim to build community cohesion.
- A significant reduction in planned urban regeneration investment in the Waterfront including security, events, activation and planning and design for future development activities.
- Reshaping and reducing back-office costs such as professional services budgets and insurance costs following the move to self-insurance.

In addition to these urban regeneration savings, we will put on hold some of our work to leverage (optimise) council owned land for development under the Transit Oriented Development Programme.

These large savings in direct regeneration expenditure will require a necessary review of our resource allocations across the regeneration business. This will result in:

- Around 20 roles (around 10% of current workforce) being potentially affected, predominantly from the urban regeneration function including senior, community facing roles. This estimate is based on initial reviews that have been undertaken.
- Less engagement and public information sharing with local communities.
- Slower delivery of key urban regeneration activities across all priority locations.

## Service prioritisation framework assessment

### Could do

Eke Panuku capex works provide additional/improved services for our customers and communities. To prioritise Eke Panuku will do the things that deliver the most value for the council.

## Financial implications

Deferring capex from this year (\$20 million) and the 2023/2024 year (\$36 million) will provide interest cost benefit of \$1.9 million.



Corporate and Property management costs will be reduced in the use of professional services, through self-insurance savings and through a review of our marina management functions, \$0.5 million.

In association with the deferred capital program, our operational costs of delivering regeneration will be lower as we reduce the momentum across our locations, saving \$2.6 million.

### **Service level and community implications**

The locations that Eke Panuku works in have been prioritised for urban regeneration by the council. Each Priority Location has a high-level project plan which has been shared with the community and key stakeholders. The capital work programme we undertake provides additional or improved services for our customers and communities. Slowing down investment in priority locations means some outcomes for each area will not be delivered within timeframes that the community may expect them in, meaning that community and stakeholder expectations of local regeneration by the council will not be met.

In some cases, Eke Panuku has contractual arrangements with key partners such as private sector developers and Government agencies which need to be completed. In particular, a joint venture arrangement between the NZ Superfund and Auckland Council sees Eke Panuku operating as agent for the council based on the organisation's urban regeneration capability and existing property holdings. Eke Panuku will continue to grow the regeneration opportunities through acquiring and amalgamating sites for quality comprehensive redevelopment under this partnership bringing our urban regeneration capability and property portfolio to the partnership.

Eke Panuku will engage with key stakeholders and advise them of the impacts of the proposed budget savings.

### **Implementation and risks**

For the interest cost reductions to be realised in the 2023/2024 year the slowdown in capital investment needs to happen in the current financial year. Contracted works will need to proceed as there will be costs associated with cancelling contracts.

A change process for staff will be required to ensure resource allocations are right sized for the reduction in scale, scope and speed of regeneration projects will need to be undertaken in the new calendar year.