Attachment B1: Group budget overview and analysis of changes

Purpose

1. To provide an overview of updates to budgets for the Auckland Council group since the adoption of the consultation budget for the 10-year Budget 2021-2031. This 10-year Budget is also known as the council group's Long-term Plan (LTP).

Budget refresh process

2. Since the adoption of the consultation budget, a budget refresh process was undertaken, which provided an opportunity for the group to review and refine the draft budgets approved for consultation. The process involved the below key parts:

   - revisiting and issuing of updated significant forecasting assumptions
   - budget review and revision to reflect the updated assumptions, the effect of any relevant council decisions and updates to the latest revenue, cost and timing projections
   - updating group capex prioritisation information
   - reviewing existing and new cost pressures

3. Significant forecasting assumptions were reviewed and revised by staff from the Financial Strategy and Planning department alongside the Chief Economist. Information from various external organisations, such as financial institutions, was drawn on to support the review.

4. Minor changes were made compared to the set of assumptions used for the consultation budget, including:

   - moving forward the expected border opening dates by six months in the optimistic and balanced scenarios given progress around vaccine development and rollout

   - marginally better overall economic picture (increased economic growth and decreased unemployment rate) given the updated assumptions around border restrictions and better-than-expected economic results to date.

5. The revised assumptions were distributed to council departments and CCOs on 9 February 2021 to be used to refresh financial projections for the final 10-year Budget 2021-2031 as part of the budget refresh process.

6. On 22 February 2021, a report was prepared for the Audit and Risk Committee to provide oversight of the approach used to update these assumptions. The committee noted the uncertainty surrounding the financial implications for the council group due to COVID-19 disruptions and agreed that the methodology used to update the significant forecasting assumptions for the 10-year Budget 2021-2031 continues to be complete, reasonable and supportable given the uncertainty (Resolution number AUD/2021/14).

7. Staff have collated the latest year-end forecasts for the current financial year and the updated LTP budget submissions from across the group in March 2021.

8. Updated financial projections have been consolidated into the group budget.

Impact on group revenue

9. The updated group financial projections reflect a reduction in COVID related revenue loss of $230 million over four years as shown in the table below (rounded to the nearest $10 million), primarily driven by the better-than-expected revenue performance in the current financial year from Watercare's Infrastructure Growth Charges (IGC) and new connections revenues as well as improved Regulatory projections.

Year		CD	March 2021 update	Key drivers for changes from CD
Current year	FY21	$450m	$240m	• Higher than expected regulatory revenue projections of approximately $50m • Better than expected Watercare Infrastructure Growth Charges and connections revenue of approximately $100m • Lower than expected rates postponement of approximately $40m • Extended Waka Kotahi top-up and higher parking revenue of around $20m
LTP	FY22	$260m	$240m	• Improved regulatory activity projections
	FY23	$170m	$170m	• No material change
	FY24	$110m	$110m	• No material change
Total COIVD-related revenue impact		**$990m**	**$760m**	

10. Although the forecast current year revenue position is much better than projected in the Emergency Budget, most of the improvement such as Watercare connections and Regulatory revenue come with associated costs and therefore doesn't offset the requirement for higher rates revenue for the following financial year.

11. Also as reported in the monthly Emergency Budget update to this committee, the asset recycling target of $244 million will not be met in this financial year. Therefore, some of the current year favourable revenue is required to offset the shortfall of cash revenue receipts from asset sales.

12. For the first three years of the LTP, the revised projections show a $20 million improvement in FY22 due to higher volumes projected for Regulatory Services but revenue impacts for FY23 and FY24 have remained largely unchanged from the consultation budget.

13. Out of the half billion revenue impact projected for FY22 to FY24, the major impacts are still driven by the projected reductions from:
    - reduced public transport patronage alongside reduced parking and infringement revenue
    - reduction in sports and cultural events (e.g. concerts) and decreased visitation at venues such as the Art Gallery and Auckland Zoo

- commercial impacts and reduced container volumes projected for Ports of Auckland
- reduction in profitability and dividend payments from Auckland Airport due to reduced international travel and border closures.

Key budget adjustments incorporated

14. Apart from updated revenue projections and associated costs, other budget updates such as interest rate movements, project delivery timing changes and some unavoidable budgetary pressures have been incorporated into the updated base budgets. More detail for these budget adjustments can be found in the table below:

<table>
<tr><th>Key changes</th><th>Description</th></tr>
<tr><td>Regulatory revenue projections</td><td>Regulatory revenue projections for FY22 and FY23 have increased by $28 million and $4 million respectively, reflecting the higher consenting volume forecast based on the latest assumptions.

The increased revenue projections come with some associated costs.</td></tr>
<tr><td>Patronage revenues at regional facilities</td><td>Reduced margins on revenue to reflect the lower visitation expected at Auckland Unlimited's venues. These include reductions in international visitor numbers at Auckland Art Gallery and revenue from Auckland Zoo visitation. The net operating impact is offset by merger benefits that are committed to by the board of Auckland Unlimited.</td></tr>
<tr><td>Dividend from Auckland Airport</td><td>Projections for dividend revenue from Auckland Airport have been updated based on the latest investment reports that the council treasury team had access to. The latest projections suggest a further reduction of $6 million in both FY22 and FY23.</td></tr>
<tr><td>Interest rate forecasts</td><td>Interest expenditure projections have been adjusted to reflect the higher interest rate assumptions in outer years:

<table><tr><th></th><th>FY22</th><th>FY23</th><th>FY24</th><th>FY25</th><th>FY26</th><th>FY27</th><th>FY28</th><th>FY29</th><th>FY30</th><th>FY31</th></tr><tr><td>CD</td><td>4.10%</td><td>4.10%</td><td>4.10%</td><td>4.07%</td><td>3.97%</td><td>3.88%</td><td>3.80%</td><td>3.68%</td><td>3.54%</td><td>3.40%</td></tr><tr><td>New</td><td>4.00%</td><td>4.00%</td><td>4.00%</td><td>3.92%</td><td>3.91%</td><td>3.94%</td><td>3.94%</td><td>3.87%</td><td>3.79%</td><td>3.70%</td></tr></table></td></tr>
<tr><td>Water treatment costs</td><td>The latest Watercare budgets approved by its board in December 2020 included additional water treatment costs of approximately $8 million p.a. which have been reflected in the updated group budgets.</td></tr>
<tr><td>FIFA Women's World Cup</td><td>Operational funding of $11 million over 3 years has been provided to support the obligations that Auckland Council has committed to as a host city for the FIFA Women's World Cup.</td></tr>
<tr><td>Updated inflation calculation</td><td>Watercare capital expenditure budgets have been updated to reflect the revised inflation assumption application, reducing its capital expenditure budgets to deliver the same programme by $338 million.</td></tr>
<tr><td>Transport capital programme updates</td><td>The updated capital programme with an increase of $383 million that is fully funded by Waka Kotahi has been incorporated into the base budgets.</td></tr>
<tr><td>Auckland Council capital</td><td>Capital expenditure increases primarily due to Worksmart updated timing of spend, Victoria Street linear park works to match CRL opening and closed landfill remediation works.</td></tr>
</table>

programme updates

Latest CRLL capital investment forecast phasing

The latest CRLL capital investment forecast phasing (in millions below) has been incorporated into the base budgets. The council’s total share of sponsor funding for the programme has unchanged from the consultation budget.

FY22	FY23	FY24	FY25
490	456	244	82

Asset sales timing

Timing for asset sales has been updated per below (in millions) as a result of delay in achieving the asset recycling target of $244 million in the current financial year:

FY22	FY23	FY24	FY25	FY26	FY27	FY28
70	70	70	70	70	60	20

Favourable borrowing position

10-year budgets have been updated to incorporate the impacts of the projected opening position, particularly the expected opening debt. This is primarily due to a lower forecast of capital spend and better than expected operating revenue performance across the group in the current year.

Budget carry-forwards

Budget for a number of capital and operational projects that are forecast not to be completely delivered this year have been carried forward into the 10-year Budget.

As these items have already been budgeted for in 2020/2021 carrying them forward into the 10-year Budget will not result in additional debt requirement.

Key capital programme and projects that were carried forward include:

- City centre and downtown works
- Land acquisitions for cemeteries and parks
- Shovel ready projects including Te Whau pathway
- Local asset renewals programme
- ICT enablement projects and hardware renewals
- Unspent climate change response fund
- Co-governance entity projects
- Worksmart programme

Key operating budget carry-forwards include:

- Unspent operating expenditure for a few upcoming events planned by Auckland Unlimited
- Māori Outcomes Fund funded projects
- Locally Driven Initiatives
- Targeted rate funded projects.

Regional Historic Heritage Grants Fund

The Regional Historic Heritage Grants Fund has been increased to $500,000 p.a. from reallocating the existing Built Heritage Acquisition Fund capital budget per resolution from the Environment and Community Committee on 10 July 2019.

Ports of Auckland projections

Ports of Auckland’s latest budget submission included an additional capital expenditure of around $15 million and some minor operational expenditure to reflect new information received since the consultation budget.

Development Contributions projections

Development contribution revenue projections have been updated based on the capital programme/project detail submitted in March. The updated projections incorporated in the base scenario are over $300 million higher than the consultation budget projections.

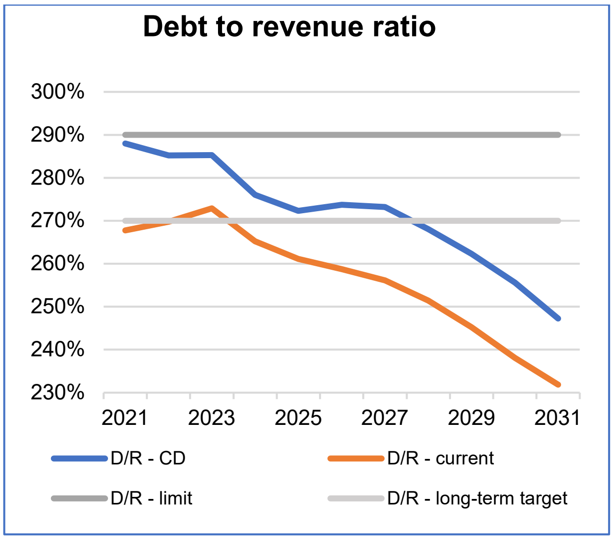
Updated budget position

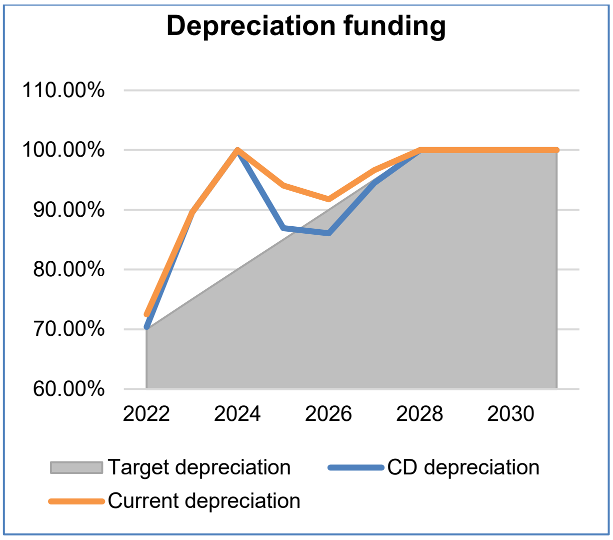
Capital programme

15. The updated position includes a capital investment of $31.6 billion over the 10 years, this is around $200 million higher than the $31.4 billion capital investment package that was consulted on.
16. The increase is primarily driven by the additional transport capital budget that is fully funded by Waka Kotahi and in-flight projects from across the group that are carried forward from the current financial year, and offset by inflation adjustment for Watercare's capital programme.

Debt to revenue position and depreciation funding

17. The updated debt position is lower than in the consultation budget and delivers an operating position where depreciation is fully funded by 2028 (in line with the proposed budget) per the graphs shown below.





18. This improved position is driven by a favourable opening debt position primarily due to lower forecast of capital spend and better than expected operating revenue performance across the group for the current financial year.

Outstanding change requests and pressures

19. A number of budget changes have been submitted along with the updated financial projections, some of them relate to unaddressed pressures signaled during the consultation budget phase and the rest are new pressures identified from the recent budget review.

Operating expenditure pressures

20. Outstanding operating expenditure pressures that are not addressed in the updated base budgets are outlined in the table below:

Issue	Key operating pressures
Public transport	Delivering planned public transport services, including new bus services, ferry replacement and asset maintenance could require additional funding of $239 million over 10 years, where approximately $190 million is needed to support additional bus services and $49 million for providing new ferry services. With the additional funding, Auckland Transport would be able to • increase in bus and ferry services from current levels • deliver approximately 29 million higher public transport patronage by 2031
Auckland Council	Approximately $6 million in FY23 and an average of $11 million p.a. of cost pressures from FY24 onwards (around 1% of direct expenditure budget), including • Legislative changes requiring additional level of service (e.g. National Policy Statement on freshwater management increasing environmental monitoring costs, Three Waters reform requiring consideration and response) • Contractual cost increases above inflation (e.g. 5.4 per cent increase in minimum wage contract pass-through) • Political decision-making directing work (e.g. CCO Review implementation costs, Auckland Plan refresh) • ICT security and network operating costs due to increasing complexity and data volumes
Climate change	An update on our climate change response package was also provided at the 14 April Finance and Performance workshop where additional $8 million investment is required for tree planting to best practice standards in regional parks, increasing the total cost of the programme from the $152 million that was consulted on to $160 million. Without additional funding, slight scope reduction will be required for some other projects in the programme.

Capital investment challenges

21. Key capital investment challenges that are not dealt with in the updated base budgets include:

<table>
<tr><th>Entity</th><th>Key capex updates</th></tr>
<tr><td>Auckland Unlimited</td><td>Request for around $182 million additional investment to provide for renewals at the stadiums, zoo and completing critical ICT stabilisation works.

Without addressing the renewals funding shortfall in years 4-10, Auckland Unlimited would be required to place its venues into a programme of managed decline which would lead to fewer visits and lower commercial revenue.</td></tr>
<tr><td>Panuku</td><td>Rephasing of capital projects following an internal prioritisation exercise, bringing forward some of the budgets from last three years to the middle years of the LTP.

Updating timing projections of asset sales for the Transform and Unlock programme to reflect when assets will be ready for disposal.

Although the overall programme will remain cash-positive throughout the LTP period, both timing changes would create a debt pressure of $260 million by FY27. The proposed movements for capital budget and asset sales compared to the consultation budgets are outlined below respectively:

<table>
<tr><th>($m)</th><th>FY22</th><th>FY23</th><th>FY24</th><th>FY25</th><th>FY26</th><th>FY27</th><th>FY28</th><th>FY29</th><th>FY30</th><th>FY31</th></tr>
<tr><td>Capex</td><td>1</td><td>-1</td><td>0</td><td>25</td><td>20</td><td>11</td><td>2</td><td>-15</td><td>-20</td><td>-23</td></tr>
<tr><td>Asset sales</td><td>-43</td><td>-61</td><td>-6</td><td>-27</td><td>-50</td><td>-15</td><td>9</td><td>16</td><td>44</td><td>65</td></tr>
</table>
</td></tr>
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Political advocacy items

22. A few political advocacy items have come forward from the recent workshops and meetings, including:
    - $200,000 p.a. proposed increase in annual grants budget for Auckland Citizens Advice Bureau for the first three years of the LTP per resolution from the Parks, Arts, Community and Events Committee on 15 October 2020
    - A continued operational funding of $204,000 p.a. for Mangere Mountain Education Trust over the 10 years as requested by Māngere-Ōtāhuhu Local Board
    - $100,000 p.a. of the operating grant for the first three years of the 10-year Budget for Hibiscus Coast Youth Centre as requested by the Hibiscus Coast Local Board

Unchanged from Consultation Document

23. One of the other key priorities consulted on in the draft budget was social investment. Proposed budgets for addressing homelessness, running the Southern Initiative, the Western Initiative and the Amotai social procurement initiative are unchanged from the recent budget review process. Auckland Council is also supporting the Ara Moana Pasifika Strategy implementation within the existing budgets to strengthen and empower Pacific workforce capability and capacity.

24. There has also been no further change to Tūpuna Maunga Authority's draft Operational Plan 2021/2022 that was included for consultation.