

I hereby give notice that a confidential meeting of the Emergency Committee will be held on:

Date: Thursday, 21 May 2020
Time: 10.00am
Meeting Room: These meetings will be held remotely
Venue:

Te Kāhui Ngārahu / Emergency Committee

CONFIDENTIAL ADDENDUM AGENDA

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CONFIDENTIAL: Emergency Budget Proposal for Consultation

File No.: CP2020/06248

Item C1

Matatapu putanga Confidentiality

Reason:	The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.
Interests:	<p>s7(2)(h) - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities.</p> <p>s7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).</p> <p>In particular, the report contains information around potential financial implications and emerging financial risks of COVID-19 in a highly uncertain environment. The release of this information could prejudice the position of the council and CCOs in sensitive commercial arrangements and negotiations.</p>
Grounds:	<p>s48(1)(a)</p> <p>The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.</p>

Te take mō te pūrongo Purpose of the report

1. To seek approval for a proposed 2020/2021 draft Emergency Budget for public consultation with options for average general rates increases of either 3.5% or 2.5%. In addition, to outline the potential implications of rates increases between 0% and 3.5% which will also be discussed in the consultation materials.

Whakarāpopototanga matua Executive summary

The report would normally go before the Finance and Performance Committee, however, in light of COVID-19, it must now be considered by the Emergency Committee

2. The scope of this report is limited to budgetary considerations, with rating policy proposals for 2021/2022 covered in a separate report.
3. The financial impacts of COVID-19 on the Auckland Council group budget for 2020/2021 remain highly uncertain. Therefore, the work to prepare a draft budget for consultation has needed to be assumption driven and follow a systematic approach to scenario modelling.
4. On 16 April 2020, the Emergency Committee acknowledged that there is no “business as usual” budget scenario for next year and therefore agreed that staff prepare an Emergency Budget for public consultation. It was agreed that Aucklanders would be asked if they support average general rates increases of either 2.5% or 3.5%, and agreed that the consultation materials will identify the impacts of rates increases between 0% and 3.5% on council services and business activity in Auckland.
5. It was agreed that the key principles for developing this budget would include maintaining a strong commitment to long-term financial prudence, while maintaining critical council services and investments to support economic activity and the overall wellbeing of our community.

6. The latest financial projections, based on the best information currently available, include a \$550 million reduction in cash revenue, a \$400 million cash operating deficit and 305% debt to revenue ratio for 2020/2021. This is the position after all savings to date have been accounted for. Some of these savings will not be sustainable beyond a twelve or perhaps 24 month timeframe and it will be prudent to reconsider in future years.
7. On 14 May 2020 the Emergency Committee noted that this would not be a prudent and sustainable position without further mitigation. It further noted that the key levers available to council for further mitigation include capital expenditure deferrals, temporary reductions in operating service levels and asset recycling.
8. Based on an assessment of the optimal balance between financial prudence, community impacts and overall economic and social wellbeing, staff recommend the following mix of levers be used to prepare the draft Emergency Budget for consultation:

Lever	3.5% rates increase	2.5% rates increase
Debt to revenue	290% in 2020/21 270% in 2021/22	290% in 2020/21 270% in 2021/22
Capital investment	\$2.3b for 2020/21 \$280m of deferrals in 2020/21	\$2.2b for 2020/21 \$65m of additional deferrals in 2020/21 (\$345m total)
Additional savings and temporary service reductions	\$54m of reductions in 2020/21	\$21m additional reductions in 2020/21 (\$75m total)
Additional asset recycling target	\$200 million in 2020/21	\$200 million in 2020/21

9. In order to inform decisions about the key trade-offs for this budget, detailed information about possible budget changes and their likely impacts are set out in this report and its attachments.
10. Given the compressed timeframe for developing the Emergency budget, and the highly uncertain and fast-moving situation we are in, it has not been possible to prepare comprehensive advice on every possible budget change that the council may need to consider. However, staff have sought every opportunity to get as much input as possible from members of this committee, local boards and CCOs to make sure the committee is as well informed and advised as it can be in the circumstances.
11. The key decision sought at this meeting is to agree draft budgets for consultation. More work will be required to retest the underlying assumptions, incorporate any new developments, consider feedback from the public and local boards and work through the details of the budget prior to making final budget decisions in July

Ngā tūtohunga Recommendation/s

That the Emergency Committee:

- a) note that work on budgets for 2020/2021 across the Auckland Council group has already identified significant savings in response to the COVID-19 situation.
- b) note that the scale of the expected financial impacts of COVID-19 on the group budget for 2020/2021 are such that without decisive action now to further mitigate these impacts, the group's long-term financial position will likely become imprudent and unsustainable.
- c) agree that the draft Emergency Budget for consultation be based on the budget proposals set out in this report and its attachments for both the 2.5% and 3.5% average general rates increases scenarios.
- d) agree that the consultation material for the Emergency Budget describe the implications of average general rates increases between 0% and 3.5% as set out in this report and its attachments.
- e) agree that it is prudent to temporarily depart from the council's financial policies of limiting debt to revenue to 270% and balancing the budget (including funding a specified proportion of depreciation) as set out in the council's 10-year Budget and Revenue and Financing Policy.

Restatement

- f) confirm that there be no restatement of the confidential report or the resolutions at this time.

Horopaki Context

12. The starting point for budgets for the Auckland Council group was year three of the 10-year Budget 2018-2028, as updated and adjusted via the Annual Budget 2019/2020 and other subsequent budget decisions made by the Finance and Performance Committee or the Governing Body.
13. In December 2019, the council agreed to include a modest amount of new expenditure in the draft budget for the first round of public consultation on the Annual Budget 2020/2021 for the following items:
 - \$1.3 million to begin extending the living wage to contracted cleaners
 - \$0.5 million continued support for tackling homelessness in Auckland
 - \$1.8 million capital and \$100,000 operational expenditure to begin decarbonising the council's fleet
 - \$1.5 million to begin phasing out gas boilers in council aquatic centres
 - \$2.7 million for planting an additional half a million trees over the next three years, totalling a million and a half trees this term
 - \$900,000 for foundation work for climate change interventions
 - \$4.13 million per annum to increase the subsidy for child fares across public transport services.

14. In March 2020, budgets across the group were updated as part of the standard annual budget refresh process. This process identified the following cost pressures:
 - \$10 million additional ATEED/Panuku operation expenditure for 2021 events
 - \$31.9 million to \$40.9 million additional AT operating expenditure for 2021 events
 - \$12.7 million additional AT operating expenditure to fund growth in public transport services to meet demand (continued from the prior year)
 - \$4.5 million for operating expenditure incurred by Auckland Transport in relation to the City Rail Link and its future operation, but which are not part of the project delivery costs
 - \$14 million additional operational and \$8 million capital expenditure costs from bottom-up review of budgets for Regional Facilities Auckland (RFA)
 - \$7.5 million additional repairs and maintenance for community assets.
15. On 16 April 2020, the Emergency Committee acknowledged that there is no “business as usual” budget scenario for next year and therefore agreed that staff prepare an Emergency Budget for public consultation on the basis of:
 - a “most likely scenario” approach to budgeting, disclosing the impacts of uncertainty
 - maintaining essential and critical council activities, with advice provided on reducing spending on discretionary activities
 - identifying impacts on local activities and the most vulnerable in our community
 - identifying impacts on Māori outcomes
 - maintaining capital investment to support economic activity
 - maintaining strong commitment to long-term financial prudence.
16. The committee also agreed that Aucklanders would be asked if they support average general rates increases of either 2.5% or 3.5%, and agreed that the consultation materials will identify the impacts of rates increases between 0% and 3.5% on council services and business activity in Auckland.
17. The committee agreed to provide immediate support for all ratepayers, including businesses, facing hardship due to the crisis. This includes waiving the Accommodation Provider Targeted Rate (APTR) payment from 1 April to 30 June 2020 for all accommodation businesses and offering all ratepayers experiencing financial hardship the opportunity to defer payment of their fourth quarter rates instalments. Further measures to support ratepayers on a targeted basis will be publicly consulted on alongside the Emergency Budget.
18. In May 2020, budgets were further updated to reflect the estimated impacts of COVID-19, along with a wide range of mitigating actions, and reported to the Emergency Committee on 14 May 2020.
19. The updated projections include \$550 million in cash revenue loss, a \$400 million cash operating deficit and 305% debt to revenue ratio for 2020/2021, after all savings to date are accounted for. A detailed analysis of the budget movements is set out in Attachment A.
20. This is primarily the result of persistent revenue reductions due to the economic outlook, border closures, social distancing and the drought, while at the same time expenditure will be returning to normal levels. Without further mitigations, the group debt position would head into imprudent and unsustainable territory, with the debt to revenue ratio projected to remain above the council’s 270% policy limit for a total of four years.

21. On 14 May 2020 the Emergency Committee noted that the latest budget position based on a “most likely scenario” and mitigations identified to date would not be a prudent and sustainable position without further mitigation. It further noted that the key levers available to council for further mitigation include capital expenditure deferrals, temporary reductions in operating service levels and asset recycling.
22. The committee also requested that each of the CCOs be requested to identify further savings and opportunities for mitigation. A letter was subsequently sent to the chair of the board of directors for each CCO by the Mayor and Chair of the Finance and Performance Committee. Responses were received on 19 May 2020 and considered when finalising this report and the recommended budgets for consultation.

Tātaritanga me ngā tohutohu Analysis and advice

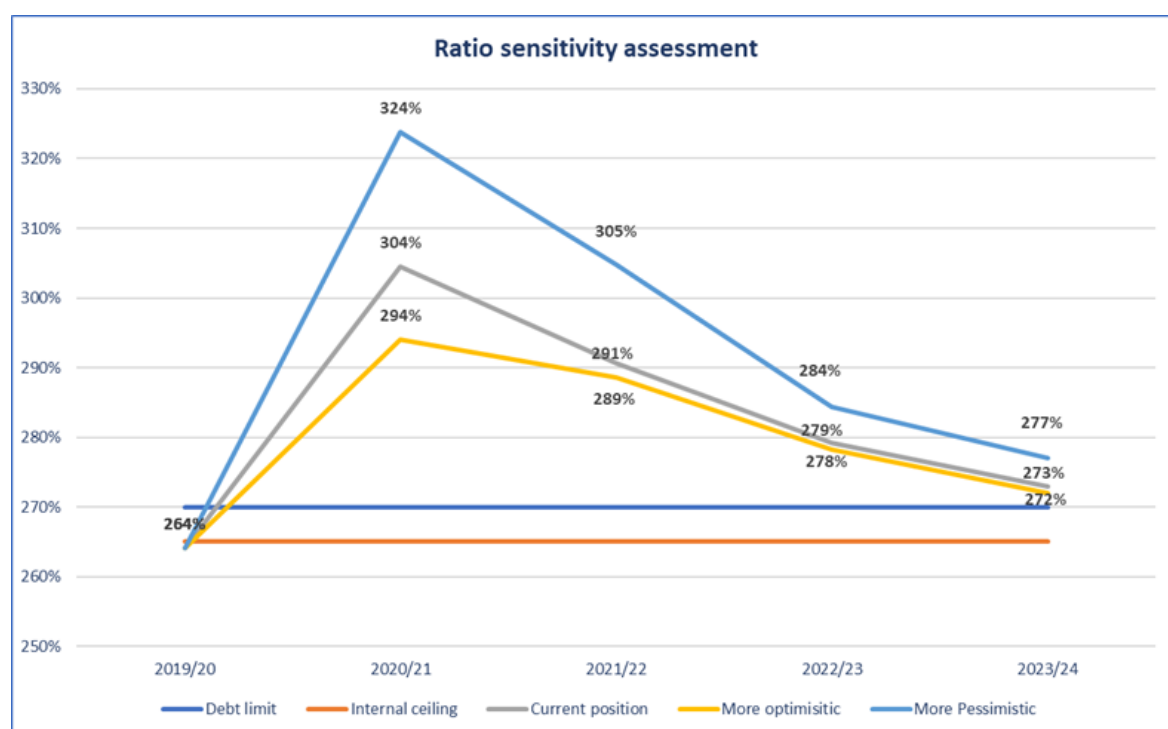
Key considerations

23. In developing a draft Emergency Budget for consultation, staff have used the following criteria and principles to guide thinking about the appropriate balance between the levers and the extent of change for each lever:
 - ensuring long-term financial prudence and sustainability - ensuring the council can continue to access capital markets on favourable terms to finance the investments required progress its long-term objectives, and avoid placing an unsustainable debt burden on future ratepayers
 - honouring contractual commitments – avoiding the cost and any other adverse consequences of cancelling in-flight projects or long-term operational contracts. The extent of change may require some contracts to be reviewed, varied or renegotiated, but unilateral cancellation of contracts should generally be avoided.
 - protecting public health and safety – ensuring changes do not result in unacceptable risks to the health and safety of our community
 - preserving asset integrity – ensuring short-term changes do not lead to severe and irreversible long-term declines in the condition of critical assets.
 - statutory obligations – ensuring we are able to continue to comply with key legislative requirements for the provision of council services.
 - Māori outcomes – ensuring that we continue to honour our commitments to Māori and that we continue to act in accordance with our statutory provisions relating to Te Tiriti o Waitangi.
 - jobs and employment – minimising the impact of changes on jobs and businesses in Auckland. While a material impact is now unavoidable, different changes have different impacts on employment outcomes. Where possible, preferences should be given to budget changes with the least impact on employment outcomes for Auckland, regardless of whether or not the council group is the employer.
 - ease of implementation - some changes can be implemented quickly and easily, while others will be long, complex and less certain. Where possible, preference should be given to the budget changes that are quick to implement and have less implementation risk.
 - protecting the most vulnerable - some changes may have material impacts on the most vulnerable people within our community. Such changes should be avoided or minimised wherever possible.

- supporting our communities – the council plays a key role in supporting a number of community organisations. Some of these organisations are facing a greater increase in community need while their other funding sources are at risk. Wherever possible, changes should at least avoid making these community groups worse off.
- climate change – different changes will have different implications for climate change. Budget changes that slow or reverse our progress in this critical area should be avoided wherever possible.

Use of debt

24. As discussed above and set out in the budget update to this committee on 14 May 2020, staff consider that the latest budget position based on a “most likely scenario” and mitigations identified to date would not be a prudent and sustainable position without further mitigation.
25. Relying solely on the use of debt would be a significant departure from the council’s current strong commitment to long-term financial prudence. This path could lead to higher borrowing costs, reduced access to debt markets and a reduced ability to progress long-term strategic objectives while keeping costs affordable for future ratepayers. Debt is also a financing not funding tool, needing to be repaid and so creating a longer term obligation on future ratepayers.
26. Given the high degree of uncertainty, in addition to analysing the “most likely scenario”, staff have also considered a “more optimistic” and a “more pessimistic” scenario.
27. The “more optimistic” scenario assumed health outcomes well under control, strong business confidence, rapid economic recovery and borders reopening sooner than currently anticipated. The reduction in council revenue would be around \$400 million rather than the \$550 million in the “most likely scenario”, and the net operating gap would likely be \$275 million rather than \$400 million.
28. The “more pessimistic” scenario assumed a surge in cases leading to two more months of lock down (at alert level 3 and 4), weak business confidence, slower economic recovery and borders closed for longer. The reduction in council revenue would be around \$780 million rather than the \$550 million, and the net operating gap would likely be \$600 million rather than \$400 million.
29. The following chart shows the impact the different scenarios are projected to have on the group’s debt to revenue ratio. Without further mitigation, all three scenarios would see the debt to revenue ratio exceed the 270% debt policy limit for at least four years. However, the peak in 2021/2022 varies considerably, indicating that adverse circumstances could increase the ratio by 20% in that year compared to the “most likely scenario”.



30. Financial scenario modelling also indicates that there is no viable option to operate within existing debt policy limits in 2020/2021. The same is true of complying with the balanced budget test set out in the Local Government Act 2002. The extent of mitigations required to achieve these outcomes would be well beyond the scope of what is envisaged in this report.
31. Not complying with the balanced budget test means that operating revenues are not sufficient to cover operating expenditure including depreciation. In the council's Revenue and Financing Policy and 10-year Budget, the policy requirement is to fund 85% of depreciation in 2020/2021. The consequence of not complying with these financial policy requirements is an over reliance on debt funding to pay for operating costs and asset renewals, which over time would become unsustainable.
32. Staff consider that in the circumstances, it is entirely prudent and indeed necessary to temporarily depart from these policies. The intent of the policies and the related legislation is to promote long-term financial sustainability, not to require rigid adherence to fixed policy settings in time of crisis.
33. Legislation expressly permits the council to make a departure from its financial policy settings provided that each of the following requirements are met:
 - i) the council formally resolves that it is prudent to do so
 - ii) material budget variations from the 10-year budget are subject to public consultation
 - iii) the decision is disclosed in the council's annual report.
34. On 16 April 2020 the Emergency Committee agreed in principle that priority should be given to maintaining investment and critical services over strict compliance with financial policies. What is required now is to pass a formal resolution about financial prudence and agree the extent and duration of the departure from the debt policy limit for consultation purposes.
35. After considering all relevant factors, staff recommend that the draft budget for consultation should include a projected debt to revenue ratio of around 290% for 2020/2021, reducing to 270% in 2021/2022. This would be consistent with the resolution passed on 16 April 2020 that the Emergency Budget should maintain a strong commitment to long-term financial prudence.

36. It could be argued that a budget with a projected debt to revenue ratio closer to 300% for 2020/2021 would represent a better balance between maintaining long-term financial prudence and maintaining investment and critical services. However, given the high uncertainty and the sensitivity analysis above which suggests the ratio could be up to 20% higher than projected if circumstances change, staff consider that the budget ratio should be set at around 290%. This will allow the council to be confident that the actual ratio will not exceed 300% as things change over the course of the year, and provide the council with the time necessary to consider further budget changes in-year should it become necessary.

Capital expenditure budgets

37. Staff have considered three possible group capital investment scenarios for 2020/2021. In each scenario, priority is first given to investments already contractually committed, then investments necessary to meet statutory requirements and critical renewal requirements and then finally investments to cater for growth and service level improvement. The three scenarios are:

\$2.5 billion scenario – this is the current budget position. While Auckland Council, Auckland Transport and Watercare have all identified sizeable reductions in their intended work programme for next year (including their intended catchup for projects that have now been delayed from this financial year), this revised programme is only about \$50 million less than the assumed group capex delivery for 2020/2021 provided for in the group budget. Staff consider that funding issues aside, it is highly credible that a group programme of this size could be delivered over the next year given recent delivery rates, existing contractual commitments and the amount of preparatory work already completed.

\$2.3 billion scenario – this scenario represents a \$280 million reduction in group capex delivery for 2020/2021 relative to the current budget position. For modelling purposes, a similar reduction is also assumed for the following year. While this scenario would see many projects and programmes delayed or stretched out over a longer timeframe, it would still represent a significant increase relative to the \$1.6 billion of group capex delivered on average over recent years. At this level, most existing contractual arrangements would still be able to be honoured but there would be noticeable impacts on service levels and the timeframes for achieving key council objectives. Some major projects that are not yet committed would be delayed and there would necessarily be less investment in renewal and safety programmes than previously planned. The proposed changes from the current budget position, and the impact of these changes are set out in Attachment B.

\$1.9 billion scenario - this scenario represents a \$700 million reduction in group capex delivery for 2020/2021 relative to the current budget position. For modelling purposes, a \$300 million reduction is assumed for the following year as delivery ramps back up to previously planned levels. While this scenario remains above historical delivery levels, it would be challenging to achieve this while honouring all existing contractual commitments. Some contracted projects would need to be slowed down with variations to contracts negotiated. Other contractual commitments may need to be broken entirely, leading to higher costs and significant reputational damage in the construction market. Staff have not yet been able to develop a proposed group programme at this level, partly because of the difficult contractual issues that need to be properly considered. As a consequence of the commitments, achieving a \$1.9 billion scenario would require delaying most new projects that have not yet commenced as well as making significant reductions to programmes such as safety and renewal programmes. This could have significant health and safety implications and would fail to meet many of the criteria outlined above. Therefore, this scenario is not recommended.

38. Watercare have advised that existing contractual commitments and new projects that must be commenced to deliver to Watercare's statutory obligations mean that a capital spend for 2020/2021 any lower than previously submitted would not be achievable. They noted that Auckland is in an unprecedented and severe drought and advised that constraining Watercare's capital programme any further will put at risk core lifeline services for water supply and wastewater collection. For this reason, the second scenario above has been revised up to \$2.3 billion from the \$2.2 billion previously reported to this committee.
39. In addition to contractual issues and the near-term service level trade-offs associated with reduced capex delivery, Auckland Transport have raised several longer-term concerns including:
- a significant reduction in Auckland Transport's capacity to deliver projects, with significant job losses, which will be slow and expensive to rebuild in the future
 - the loss of construction industry capacity and capability in Auckland which will take years to rebuild
 - increased roading maintenance costs in medium term as a result of deferred renewals
 - slower progress with achieving intended reductions in emissions and deaths and serious injuries on Auckland's roads
 - significant reputational issues associated with reduced responsiveness to communities and stakeholders, with many of these projects already publicly consulted on
 - reputational risk due to unused Regional Fuel Tax revenue which will continue to accumulate (albeit at a slightly reduced rate).
40. The advice of the council's Chief Economist is that it is critically important to continue to invest in quality capital projects at this time to stimulate the Auckland economy, both in terms of maintaining business confidence, and the flow-on impact of this spending through the economy.
41. In his professional opinion, the economic benefit that this would stimulate compared to reducing the rates burden cannot be underestimated. A lower rates bill in times of economic nervousness, will generally be banked to pay off debt. It will play almost no role in stimulating more confidence or economic activity. But spending that achieves the twin goals of supporting direct employment and enabling significant further downstream employment should be supported wherever feasible.
42. The Chief Economist considers that investing in capital projects with demonstrable downstream or catalysing benefits is particularly helpful. Investment in infrastructure such as pipes and roads will generally enable more house-building activity. Town centre upgrades bring people back into those town centres. Transport upgrades that do both of these two things again should be prioritised. They have much more stimulatory power than adding more staff or people-oriented programmes. With the Canterbury rebuild, there was a key missed opportunity in terms of government not fulfilling a catalyst role in restoring confidence and stimulating private sector activity.
43. Overall, staff consider that there is a compelling case for council to continue with as much capital investment as it is prudently able to do so. The \$2.3 billion scenario is considered to be the appropriate balance between maintaining investment and maintaining long-term financial prudence. Staff therefore recommend the \$2.3 billion capex delivery budget for 2020/2021 as outlined in Attachment B is included in the draft Emergency Budget for consultation under the 3.5% rates increase option.

44. Staff consider that there is also a compelling case for central government to support ongoing high levels of capital investment in Auckland. That may well eventuate in due course through processes such as the “shovel ready” projects initiative. However, there is not yet enough certainty or clarity of the outcome of any such processes for us to include a budget assumption about this in the council’s draft budget. The Office of the Auditor General has previously given clear guidance that any such budgetary assumptions must be supported by strong evidence that demonstrates the assumption is reasonably likely to occur.
45. Under the 2.5% rates increase, further capital expenditure mitigation is required to offset the \$45 million of lost debt headroom associated with the \$17 million further revenue reduction.
46. After considering which areas are most constrained and least constrained by contractual commitments in the \$2.3 billion capital programme, staff recommend the following further capex delivery changes for 2020/2021 be included in the draft Emergency Budget under the 2.5% scenario:
- \$10 million further reduction in the community investment programme. This would include further timing changes for regional park renewals such as deferring upgrades of tracks, toilet facilities and accommodation. It would also include further reductions in renewals of local assets like community halls and playgrounds, resulting in risk of closure of some facilities
 - \$20 million deferral for transport growth and improvement programmes (\$10 million debt reduction after adjusting for NZTA subsidies). This would mean delaying investment in walking and cycling projects. It would also mean deferring the remaining local road sealing and local board programmes so that none of these are progressed next year
 - \$20 million further reduction in Auckland Transport’s planned renewal and safety programmes, (a \$10 million reduction in debt requirement after adjusting for NZTA subsidies). These programmes will have to be further prioritised next year, but there will inevitably be implications for asset conditions, future maintenance requirements and deaths and serious injury reduction targets
 - \$5 million reduction in RFA’s capital investment on critical facility renewals, leading to a risk that one or more facilities may temporary close or provide reduced service
 - \$10 million of further deferrals for Panuku’s town centre development programme.
47. For rates increase scenarios below 2.5%, the kind of further reductions envisaged under the \$1.9 billion scenario would be required. This would likely lead to the need to break many existing contractual arrangements, significant reductions in service levels, safety and asset condition and would substantially erode capex delivery capacity in Auckland for years to come. It would also fail to bring the wider economic benefits that are desperately needed by businesses and employers in Auckland right now.

Operating expenditure budgets

48. The current budget position reflects a \$150 million reduction in operating expenditure due to both the direct impacts of COVID-19 disruption and reductions in discretionary expenditure to help mitigate the financial impacts of the situation. While large, this only serves to offset a portion of the \$550 million projected revenue reduction in the “most likely scenario” giving rise to the projected \$400 million reduction in net operating cashflow.
49. The analysis in Attachment A shows significant reductions in expenditure for Regional Facilities Auckland, Ports of Auckland and ATEED which are directly related to the reduced revenue and activity from COVID-19 disruption. In terms of discretionary savings, Auckland Transport moved early to announce significant reductions to its operating expenditure on staff costs and professional services. The other CCOs also submitted budgets with some reductions in staff cost and other discretionary costs.

50. The biggest single movement in operating expenditure has been the \$120 million of savings for Auckland Council, although some of that has needed to first cover a remaining efficiency target and some operational cost pressures. Nevertheless, it is a sizeable number with sizeable impacts for both staff and our community. With savings of this magnitude, the Auckland Council organisation will get smaller and it is not possible for reductions to only touch back-office functions as opposed to having some impact on frontline services.
51. The list of savings items included in the \$120 million are set out in Attachment C. Notable examples include:
 - workforce cost reductions through voluntary pay reductions, consideration of options for this year's pay review (including whether it should be limited or dropped altogether), reducing the staff training budget by half, and a review of Auckland Council's operating model with an expectation of a reduction in permanent staff numbers
 - reductions in the budgets for professional services consultancy and travel costs
 - lower interest and insurance costs
 - reductions in some discretionary regional grants budgets of about \$4 million or around 10% of the regional grants budget for non-essential projects or events. This includes the Regional Natural Environment Fund, Water Protection Fund, Sports and Recreation Facilities Investment Fund, Regional Events Fund and the Regional Historic Heritage grant
 - reductions in stormwater maintenance levels
 - operational efficiency opportunities in the areas of animal management and consent processing.
52. Because these savings (including the \$120 million) are already included in the current budget position, further operating expenditure reductions are required to reduce the projected \$400 million net operating cashflow deficit.
53. Reducing this operating gap to zero will not be possible, so debt funding will temporarily need to be used to fund operating expenditure. This is not a prudent approach long-term and in the short-term, debt funding of operating costs should be minimised where possible.
54. Because back office costs have already been significantly reduced, further reductions in operating expenditure will almost certainly affect service levels. Because the revenue problems are primarily affecting the 2020/2021 financial year, temporary rather than permanent reductions in service levels may be adequate to prudently manage through this situation.
55. The implications of service reductions depend greatly on the particular area of spend. Many reductions will impact on jobs, either within council or across the wider Auckland economy. The nature of many services provided by or on behalf of the council are associated with lower paying jobs, so some service reductions may have a disproportional effect on lower income households. In addition, many grants and community services provided by the council help support the communities in Auckland that are most in need so reduction in these areas could have a significant impact on those communities.
56. After reviewing elected member feedback on the Emergency Budget received to date, and the latest responses back from the CCOs, staff have developed a list of additional savings and possible temporary reductions in services that could provide up to \$100 million of operating cost mitigation. This list is set out in Attachment D.
57. While the advice of our Chief Economist that spending on operating activities will not have the same economic stimulatory impact as capital investment, staff consider that service reductions of \$100 million or more (on top of the savings already in the current budget position) would have unacceptable social and community impacts.

58. Staff therefore recommend that in the 3.5% rates increase scenario, a package of \$54 million of further savings and temporary service level reductions be included in the draft Emergency Budget for consultation. This package is detailed in Attachment D and includes:
- a target for removal of duplication across organisations in the group
 - additional savings in staff costs and discretionary expenditure for Auckland Transport, RFA and Panuku
 - temporary reduction in some public transport services and a delayed introduction of new services
 - additional transport enforcement measures resulting in improved safety, improved trip times for buses, high occupancy vehicles and freight, and increased revenue
 - fewer shows and cultural performances delivered through Auckland Live and further cancellation of exhibitions at Auckland Art Gallery
 - reduced project readiness work for Panuku's development projects
 - a lower level of new funding to support for the 36th Americas Cup and other 2021 events in terms of event activation and promotion, traffic management and additional event-related public transport services
 - a 10% reduction in Local Delivered Initiatives (LDI) operational funding.
59. A further package of \$21 million additional temporary service level reductions is recommended to be included in the draft Emergency Budget for consultation under the 2.5% rates increase scenario. This further package includes:
- a 20% reduction in LDI operational funding rather than 10%
 - reduced open space maintenance standards through reduced footpath cleaning, closing some public toilets and removing litter bins to reduce emptying costs
 - reduced maintenance and cleaning of public spaces at the city centre waterfront
 - temporary removal of some public transport fare concessions and introducing car parking charges at park and rides.
 - reduction in regional grants funding.
60. For rates increase scenarios below 2.5%, the further reductions of the kind shown in Attachment D would be required to increase the saving in operating costs to \$100 million or more. This could include:
- delaying the start of implementing a living wage policy for contracted cleaners
 - not continuing support for the Housing First programme
 - delaying the climate change initiatives proposed in the first round of consultation
 - delaying the foundation work for climate change interventions proposed in the first round of consultation
 - not resuming inorganic collection services for a year, potential leading to increased illegal dumping
 - permanently closing and vacating some community facilities with low utilisation rates
 - reduced road and footpath maintenance standards for a year, with potential risks to safety and whole of life costs
 - reduced economic development activities delivered by ATEED, making Auckland businesses and employers more reliant on central government's economic development activities
 - delaying the implementation of initiatives to progress Māori outcomes (e.g. marae development).

61. Staff have not yet been able to identify operating reductions that would enable a cost reduction of more than \$100 million. However, it is clear lower rates increase scenarios would result in significant impacts on core council services and unacceptable implications for climate change, Māori outcomes and supporting the most vulnerable in our community. It is estimated that a 0% rates increase would result in council job losses of the order of 900 staff members.

Asset recycling

62. Asset recycling is an important lever for the council as it can allow capital to be invested in the most strategically important activity. This is an aspect that both credit agencies and central government consider when assessing Auckland Council's financial position.
63. Asset recycling has been underway since amalgamation. At amalgamation Auckland Council received a number of assets (property, investments, business operations) from legacy councils and over time there has been some rationalisation activity. In 2015 the council received advice from EY and Cameron Partners (reports on Alternative Sources of Finance), with some further rationalisation then occurring.
64. The 10-year budget has financial targets from asset recycling (excluding asset sales linked directly to specific projects and programmes such as the unlock and transform programme). These targets are as follows:

Proceeds (\$m)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Budget	24	24	24	20	20	20	20	20	20	20
Actual	44									

65. The Emergency Budget provides an opportunity to increase the budget targets and accelerate asset recycling to reduce the debt requirement. However, this may require an alternative approach to approving property disposals.
66. An analysis of the key asset recycling opportunities is set out in Attachment E. There are three broad categories of potential asset recycling opportunities:
- Accelerate sale of property (includes Panuku rationalisation pipeline)
 - Consider ongoing investment in non-core commercial assets
 - Further optimisation of service property.
67. Each recycling option differs in their liquidity – how quickly the asset can be converted to cash. Shares (e.g. in Auckland International Airport) are very liquid with an active market, sale of property less so; particularly with the anticipated recession. The timing of when proceeds may be realised is a key consideration to meet the budget parameters.
68. The current economic environment may result in less value being realised than if a sale occurred last year. This is hypothetical and not relevant as the opportunity for asset recycling is part of a trade-off against other financial levers (debt, capital, operating cost). However, some of the opportunities have a long lead time and this is a key consideration when assessing the ability to meet the budget parameters.
69. A review of the potential opportunity to sell and lease back 135 Albert Street has previously concluded that any benefits to the council's financial position would only be marginal. This is primarily because the resulting lease obligation would be factored into the council's debt to revenue ratio. It would effectively result in lower debt levels but a similar increase in debt-like financial obligations.

70. The broader implications of asset recycling will vary according to the specific opportunity. Simply transferring ownership of an asset will not generally impact employment and business activity in the same way that reduced capital or operating expenditure would. The impact on the community will vary, but often the impact is a potential lost opportunity to possibly use that asset for some unspecified alternative use in the future.
71. Attachment E identifies \$250 million to \$350 million of near-term opportunities for recycling capital from assets classed as both non-strategic and non-service assets. This is comprised of \$200m of land, building and leasehold interests and \$50m to \$100m of opportunities related to city centre car park buildings.
72. Staff recommend that an additional asset recycling target of \$200 million for 2020/2021 be included in the Emergency Budget for consultation for both the 3.5% and 2.5% rates increase options. Achieving this target within this timeframe will be challenging, requiring a clear political mandate and different approach to approval.
73. Under the lower rates increase scenario, further asset recycling opportunities may need to be considered to maintain long-term financial prudence and sustainability. This could include looking at the ownership of strategic assets.

Proposed draft budgets

74. The combined impact of all the recommended budget changes under the 3.5% rates increase scenario on group budgets is set out in Attachment F. This information will form the basis of financial projections in the consultation materials, with the incremental differences shown for the 2.5% rates scenario. This is necessary because the material must present one set of base budgets for information, but this does not imply in any way that the 3.5% option is preferred over the 2.5% option. The 3.5% option has been selected as the base purely because it reflects the status quo position in the current 10-year Budget.
75. Debt modelling indicates that the debt to revenue ratio after accounting for all of the recommended changes is projected to be 290% in 2020/2021 and 270% in 2021/2022 under each of the two rates increase options.
76. The following table sets out an assessment of the overall proposed draft budgets against the criteria and principles outlined above for each of rates increase scenarios.

Principle / criteria	Key considerations with average rates increase of:		
	3.5%	2.5%	1.5% to 0%
Ensuring long-term financial prudence and sustainability	While temporarily exceeding debt limits, the draft budget settings are prudent and signal a strong commitment to long-term sustainability.	The additional mitigations in this budget scenario ensure long-term financial prudence is maintained.	Further mitigations would be more difficult to implement, creating doubt about long-term prudence. There would also be potential long-term damage to our reputation as a borrower as we are seen as willing to benefit ratepayers at the expense of bondholders.
Honouring contractual commitments	Most contracts would be honoured, with some delays and variations negotiated.	Most contracts would be honoured, with some delays and variations negotiated.	Some contracts may need to be broken leading to higher costs and significant damage to council's reputation in the construction market.
Protecting public health and safety	Spending reductions compared to previous plans will result in less progress with improving public health and safety.	Further spending reductions will further impact intended public health and safety outcomes.	More substantial reductions are likely to lead to materially higher risks to public health and safety.

Principle / criteria	Key considerations with average rates increase of:		
	3.5%	2.5%	1.5% to 0%
Preserving asset integrity	The need to prioritise some renewal and maintenance budgets will increase asset risks.	Further prioritisation will increase asset risks further and likely lead to higher costs over the medium term.	Whole of life costs would materially increase as would the risk of critical asset failure.
Statutory obligations	Statutory obligations able to be complied with.	Statutory obligations able to be complied with.	Increased risk of non-compliance due to loss of internal capability and institutional knowledge.
Māori outcomes	Māori outcomes able to be progressed as a key priority area.	Māori outcomes able to be progressed as a key priority area.	Some key initiatives such as marae development may be delayed. Reduced staff capacity and capability likely to result in slower progress with achieving intended outcomes.
Jobs and employment	Lower capital and operational spending compared to previous plans will result in lower levels of employment within the council group and across the wider Auckland economy.	Further spending reductions will lead to further reductions in jobs and employment.	Significant spending reductions will lead to more significant reductions in jobs and employment. It is estimated that a 0% rates increase would result in council job losses of the order of 900 staff members.
Ease of implementation	Significant organisation change will be required, and savings targets will not be easy to achieve.	The challenges will become more difficult and implementation risk will increase.	Extensive change will be required over an extended period of time. Highly complex contractual issues will need to be worked through.
Protecting the most vulnerable	Reduced employment levels will mean more people in need. Some temporary reductions in grants, community services and LDI funding may impact our most vulnerable communities in a time of greater need. Funding will need to be carefully prioritised to address the most critical needs.	Further reductions in grants and LDI funding may further impact vulnerable communities.	Significant spending reductions will further impact the most vulnerable. Not continuing funding for Housing First and delaying the extension of the living wage policy to contract cleaners will fail to provide support to where and when it is needed most.
Supporting our communities	Reduced staffing levels and reductions in some grants, community services and LDI funding will temporarily reduce our ability to support our local communities compared to current plans.	Further reductions in grants and LDI will further reduce our ability to support our local communities.	Significant spending reductions will further impact support for local communities.
Climate change	Reductions in discretionary budgets including staff and professional services may impact the council's ability to progress climate change response actions from BAU budgets.	Temporary reductions in some public transport services, temporary reductions in concessionary fares and delayed investment in walking and cycling infrastructure are likely to adversely effect Auckland's carbon emissions in the near-term.	Further spending reductions such as not proceeding with the foundation work for climate change interventions will further reduce the council's ability to adequately respond to the climate emergency. Further delays in proceeding with PT and active mode infrastructure investment will further impact Auckland's emissions.

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Tauākī whakaaweawe āhuarangi **Climate impact statement**

77. The key climate impacts of budget changes under the different rates increase scenarios are set out in the impact table above.

Ngā whakaaweawe me ngā tirohanga a te rōpū Kaunihera **Council group impacts and views**

78. The current budget position set out in this report and its attachments is based on budget information submitted by organisations from across the council group. Each of the CCOs engaged with their board of directors on their initial budget submissions.
79. However, the need for the further potential mitigations considered in this report arose only recently, and so subsequent engagement with each CCO and their board of directors has had to follow a different process under very compressed timeframes. That process is described in the context section above and the views of the CCOs are included throughout the body of this report.
80. Further information and input will be sought from across the council group as the Emergency Budget 2020/2021 is finalised following public consultation.

Ngā whakaaweawe ā-rohe me ngā tirohanga a te poari ā-rohe **Local impacts and local board views**

81. The key impacts of budget changes on local communities under the different rates increase scenarios are set out in the impact table above.
82. Information about the financial impacts of COVID-19 and the work to prepare the Emergency Budget has been shared with local boards throughout this process. Local Board Chairs have been included in a series of workshops to discuss these matters, including discussions on which council services and investments are more critical to their local communities and which are more discretionary.
83. Local Boards have been invited to provide their specific views on the Emergency Budget to this committee. Those views will be presented in a workshop on 20 May 2020 and be reported separately to this committee.
84. Part of the process for finalising the annual budget (including 21 local board agreements) will include further engagement with local boards to agree local activity budget changes and work programmes for 2020/2021.

Tauākī whakaaweawe Māori **Māori impact statement**

85. We understand that Māori are particularly vulnerable to the impacts of COVID-19. Opportunities are being considered to repurpose existing Māori Outcomes budget to support Māori-led responses to and recovery from COVID-19.
86. The key impacts of budget changes on local communities under the different rates increase scenarios are set out in the impact table above.

Ngā ritenga ā-pūtea **Financial implications**

87. Financial implications are discussed in the body of this report, with further details set out in the attachments.

Ngā raru tūpono me ngā whakamaurutanga Risks and mitigations

88. The high-level financial risks of the COVID-19 situation for the council group are discussed in the body of this report.
89. The Audit and Risk Committee plays a key role in maintaining oversight and advising the Governing Body on the management of significant financial risks and the associated compliance matters, including whether or not a robust process has been followed.
90. Staff reported to the Audit and Risk Committee on 14 April 2020 on the process, methodology and underlying assumptions used to assess the financial implications of the COVID-19 situation on the council group. The committee's oversight role of these key matters is ongoing, with the next update to be provided to the committee on 26 May 2020.

Ngā koringa ā-muri Next steps

91. Decisions to adopt consultation materials, adopt the final budget and set rates will need to be made by the Governing Body as these matters cannot be delegated to a committee.
92. Public consultation will take place from 29 May 2020 to 19 June 2020, with final budget decisions being made on 16 July 2020 and the final Emergency Budget being adopted by the Governing Body on 30 July 2020.
93. Staff are also continuing to progress discussions with credit rating agencies and continuing to engage with central government officials on statutory compliance matters and opportunities for greater collaboration on capital investment in Auckland post-disruption.

Ngā tāpirihanga Attachments

No.	Title	Page
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B	Recommended capex scenario	25
C	ELT \$120 million savings	37
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E	Asset recycling opportunities	41
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Ngā kaihaina Signatories

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Attachment A: Analysis of COVID-19 financial impacts for the most likely scenario

Purpose

The purpose of this document is to provide a breakdown of the high-level financial impacts presented to the Emergency Committee on 14 May 2020.

Summary of financial impacts of the most likely scenario

Projected operating impacts	\$M	Projected capital impacts	\$M
Cash operating revenue	-\$550M	Capital delivery	-\$50M
Cash operating expenditure	-\$150M	External capital funding	+\$50M
Net operating cashflow	-\$400M	Net capital funding requirement	-\$100M

Summary of key group assumptions

Following the initial COVID-19 budget update to the Emergency Committee on 16 April 2020, staff worked on updating the underlying assumptions for a “most likely scenario” that the draft Emergency Budget 2020/2021 will be based on.

The updated assumptions are based on latest information available and advice from Auckland Council’s Chief Economist and is supported by economic commentary and outlooks from bank economists and The Treasury.

In summary, the key assumptions are:

- Alert levels for the 2020/2021 financial year are assumed to be level 2 for the first quarter and level 1 for the remainder of the year.
- The New Zealand economy is projected to begin the 2020/2021 year markedly below its pre-COVID position. Economic activity and unemployment are expected to recover with shifts towards lower alert levels.
- Under the “most likely scenario”, population growth is muted, which leads to slower development activity that will impact regulatory and growth infrastructure-related activities.
- Under the “most likely scenario”, New Zealand border restrictions will apply with a few possible exceptions.

The assumptions were presented to the Emergency Committee in a workshop on 23 April 2020 and the “most likely scenario” has been used to form the draft Emergency Budget 2020/2021.

Analysis of operating impacts

Cash operating revenue

Note all figures have been rounded to the closest \$5M

Item	Council entity	\$M	Explanation
Rates postponement provision (Net)	Group	-\$65M	Estimate by the council's financial policy team for rates postponement for the 2020/2021 financial year is \$100M. However, this is reduced by recovery of forecast rates postponement for 2019/2020 of \$35M
Ports of Auckland revenue	POAL	-\$65M	Due to reductions in shipping volumes due to COVID restrictions and reductions in economic activity
AIAL dividend projection	Group	-\$60M	Assuming no airport dividend will be received during the 2020/2021 financial year.
Regulatory services	Auckland Council	-\$50M	Assuming a 25%-30% reduction in building and resource consenting volumes
Water charges	Watercare	-\$50M	Reductions due to COVID restrictions, change in volumes from water restrictions and change in pricing (changing from a 3.5% increase to a 2.5% increase)
Infrastructure Growth Charges	Watercare	-\$45M	Reductions as rate of development falls due to COVID restrictions and reductions in economic activity
Regional Facilities revenue	RFA	-\$40M	Large reductions due to COVID restrictions and lack of public appetite for mass gatherings
Public transport fare box (Net)	Auckland Transport	-\$40M	Gross reduction of \$95M projected, however assuming that NZTA will top-up 51% of the shortfall
Parking and enforcement	Auckland Transport	-\$40M	Reductions in parking requirements from commutes due to less trips mainly from COVID restrictions and more people working from home.
Customer & community revenues	Auckland Council	-\$30M	Reductions in leisure centres, holiday parks and active recreation such as pools.
Other Auckland Transport revenue lines	Auckland Transport	-\$20M	Petrol tax, rental revenue and other revenues
Regional Fuel Tax	Group	-\$20M	Assuming a 20% reduction in fuel usage at Level 2, and a 10% reduction in fuel usage
Accommodation Provider Targeted Rate	Group	-\$10M	Suspension for the first nine months of the 2020/2021 financial year
Other minor impacts		-\$15M	Other items include Panuku revenue, and inflation adjustments held centrally
Total		-\$550M	

Cash operating expenditure

Note all figures have been rounded to the closest \$5M

Item	Council entity	\$M	Explanation
Additional savings over and above existing targets	Auckland Council	-\$58M	Additional initiatives undertaken to help mitigate revenue loss. Total savings of \$120M include: - \$62M of savings to meet current targets - \$58M over and above existing targets savings to mitigate COVID-19 impacts.
Ports of Auckland expenditure	POAL	-\$30M	Lower operating requirement due to less volumes.
Regional facilities expenditure	RFA	-\$20M	Primarily reduced cost of sales as a result of reduced performances and events, and reduced shop and café sales.
2021 events funding	Auckland Transport	-\$20M	Revised cost estimate from original \$40M budget bid
Accommodation Provider Targeted Rate funded expenditure	ATEED	-\$10M	Reductions in activities supported by the APTR
Auckland Transport net operating gap	Auckland Transport	+\$5M	Gross operating pressures of \$25M primarily due to additional PT costs, reduced by \$20M operating savings including pay reductions and reductions in professional services and contract staff.
Other minor impacts		-\$17M	Other items include inflation savings held centrally and reductions in staff and other costs in Watercare.
Total		-\$150M	

Analysis of capital impacts

Capital delivery

Note all figures have been rounded to the closest \$5M

Item	Council entity	\$M	Explanation
Auckland Council mitigation initiatives	Auckland Council	-\$100M	Holding capital programme to \$550M to help mitigate debt impact of revenue loss
Auckland Transport mitigation initiatives	Auckland Transport	-\$55M	Holding capital programme to \$850M to help mitigate debt impact of revenue loss
Watercare COVID impacts	Watercare	-\$55M	Delays due to impacts of COVID on supply chains and procurement
Total gross changes		-\$210M	
Reversal of under-delivery assumption	Group	\$160M	Previous budgets assumed timing changes within the capex programme. In year 3, the assumption was \$160m of the programme would not be delivered. With a large reduction in capex investment under the current scenario this assumption is no longer valid and is reversed.
Total		-\$50M	

See the draft group capital investment list for more details of the impact of these changes

Capital funding

Note all figures have been rounded to the closest \$5M

Item	Council entity	\$M	Explanation
Mill Road/Penlink asset sales	Group	+\$100M	As part of the NZ Upgrade project, the Crown will be taking over the delivery of these projects. The council will be able to sell land previously acquired for these projects to the crown to recover the cost.
Development contributions	Group	-\$60M	Reductions due to lower consenting activity from COVID restrictions and lower economic activity
NZTA capital subsidies	Auckland Transport	+\$30M	Assuming that NZTA will co-fund 40% of the planned Auckland Transport capital programme. This is a higher assumption than considered in March.
Transform/Unlock asset sales	Panuku	-\$20M	Delays to the programme due to COVID restrictions and changes to the property market.
Total		+\$50M	

Attachment B

Draft Auckland Council Group capex list for the Emergency Budget

Group summary

Item	FPF budget	Proposed Budget	Change	Impacts
Auckland Council	\$668M	\$450M	-\$218M	As at March 2020, Auckland Council was planning a capital programme of around \$630 million. There are typically project delays encountered during the course of any year which mean that the capital programme is normally under-delivered. The \$450 million programme represents a large reduction in planned activity, below the level of capital investment in the current and previous years. Auckland Council was projecting around \$300m of carry-forwards, this is larger than normal due to the lengthy pause in construction due to the COVID situation. It is assumed that all carry-forwards to 2020/2021 are offset by carry-forwards of an equivalent amount from 2020/2021 into 2021/2022 or later years.
Auckland Transport	\$905M	\$710M	-\$195M	Programme details and impacts are contained within this attachment.
Watercare	\$536M	\$513M	-\$23M	Reductions primarily due to rephasing of the forecast growth component of the capital programme due to COVID-impacts.
Regional Facilities Auckland	\$41M	\$50M	+\$9M	Increased due to carry forwards from uncompleted Zoo and Aotea Centre works in FY20, mainly from COVID delays.
Panuku	\$173M	\$100M	-\$73M	Focus will be mainly on completion of committed projects and critical renewals.
Ports of Auckland	\$91M	\$79M	-\$12M	Reduction due to COVID impact. Capital expenditure will only be made if it relates to projects that are already committed and underway or projects required (e.g. for health and safety and mandatory replacement items).
City Rail link investment (AC share)	\$395M	\$395M	-	
Group capex delivery assumption	-\$160M	-	+\$160M	Previous budgets assumed timing changes in the capex programme. In year 3, the assumption was \$160m of the programme would not be delivered. With a large reduction in capex investment under the current scenario this assumption is no longer valid and is reversed
Total Auckland Council Group	\$2,650M	\$2,297M	-\$353M	

Auckland Council

Item	FPP budget	Proposed Budget	Change	Impacts
Healthy Waters	\$129M	\$90M	-\$39M	<p>Deferral of all externally contracted design work and all stormwater pipe relining.</p> <p>Deferral of all network growth projects.</p> <p>Deferral of most renewal/ capacity upgrades other than emergency works.</p> <p>Deferral of Hurstmere Road upgrade.</p> <p>Deferral of most small drinking water upgrades.</p> <p>Some Water Quality Targeted Rate projects deferred.</p>
Wynyard Edge Alliance	\$12M	\$18M	+\$6M	<p>Completion of AC36 works as planned</p> <p>Project is critical to event delivery and already contracted</p>
Development Programme Office	\$75M	\$94M	+\$19M	<p>Deferral of City Centre Targeted Rate projects not yet commenced including Hobson St, Myers Park and Nelson St slip lane.</p> <p>Deferral of both Stage 4 of Otahuhu Town Centre and Hurstmere Road upgrades.</p>
Environmental Services (Including NETR)	\$17M	\$7M	-\$10M	<p>Delay to planned Natural Environment Targeted Rate work including 35% of planned track upgrades.</p>
Community investment	\$342M	\$180M	-\$162M	<p>Capital budget below previous levels of delivery (27% less than last year).</p> <p>Accommodating carry forwards from FY20 (\$132m) would require 85% of the planned FY21 programme to be deferred into outer years.</p> <p>Major impacts include:</p> <ul style="list-style-type: none"> - 65% reduction in land acquisition meaning only land acquisitions already signed and settling next year could be purchased, in addition to the Manukau cemetery land purchase - Major delay to all OLIs and to the growth/development programme unless the works are already contractually committed - Deferral of all unallocated LDI capex and uncommitted LDI projects - A minimum reduction of 80-90% of planned FY21 renewals for buildings, playgrounds and open space. This level of reduction will mean a noticeable deterioration of community assets and a risk of closure of assets should they become a health and safety risk (example broken walkways, broken play equipment, leaking buildings with dampness or mould issues). This may also result in increased response maintenance costs due to failing elements of assets as they pass their useful life. <p>Prioritisation will be led by Local Boards.</p>

Item	FPF budget	Proposed Budget	Change	Impacts
				<ul style="list-style-type: none"> - Possible closure of facilities under the seismic code when assessments completed, with no seismic remediation of facilities funded - 28% reduction in library budgets means significant impact on availability and long-term impact on breadth and depth of collection for years to come. Reduction in Libraries' digital budget means no new or improved online services in short-term; increasingly out-dated and inefficient technology - 70% reduction in public art spend meaning most projects will be delayed to FY22 unless committed - Co-governance carry-forwards to be accommodated in existing FY21 budget envelope
ICT	\$25M	\$17M	-\$8M	Reduction of ICT enablement initiatives which may jeopardise efficiency savings
Corporate Property	\$30M	\$22M	-\$8M	Slowing of WorkSmart programme with some risk as property sales are already unconditional Reduced renewals e.g. Auckland House toilet facilities. Manukau Hub work paused. Some local board office refits deferred. Pause sustainability fund \$1m.
Central Risk Fund	\$15M	\$15M	-	Central budget for contingencies
Other	\$23M	\$7M	-\$16M	Climate Change Response Fund (funding for reactive storm damage) reduced from \$20M to \$5M so that more funds are available for planned projects. Reductions to smaller capex areas including Waste, Regulatory, Governance, Planning
Total Auckland Council	\$668M	\$450M	-\$218M	

Item C1

Attachment B

Auckland Transport

As a result of construction worksites being shut-down during Alert Level 4, the advanced entitlement programme and reduced productivity associated with physical distancing on sites, capital that would otherwise have been spent in 2019/2020 will now occur in 2020/2021. Capital expenditure deferrals for in-flight construction projects will therefore be much higher for 2020/2021 than any other year.

These additional deferrals are principally in relation to the Downtown Infrastructure Development Programme, the Short-Term Airport Access Improvements Programme (including Puhinui interchange), elements of the Urban Cycling Programme (such as the Karangahape Road Enhancements Project and New Lynn to Avondale Shared Path) and delays in delivery of new trains.

In addition, ongoing social distancing requirements may impact on-site productivity and result in increased costs for these projects.

The combination of these factors means that AT has close to \$600 million of work contracted for 2020/2021.

A \$700 million capital envelope would leave just over \$100 million available for other shovel-ready projects at the end of their design and planning phases. This will severely curtail the development of future projects (business casing, detailed design etc), customer experience and business technology related initiatives.

A reduction in capital programme to this extent is of real concern in the context of Auckland Plan outcomes and the strong leadership position Auckland Council has taken in respect of climate change.

Impacts of a reduction to \$700 million capital envelope:

- With the support of Governing Body and Auckland Council we have been making great strides in delivering reduced deaths and serious injuries on the roads of Tāmaki Makaurau. A capital reduction would require the pausing or cancelling of safety improvements including further rollout of red-light cameras in urban areas, the rural road delineation programme, and improvements to high risk intersection and pedestrian crossing improvements. This will result in more DSI across the network.
- One of the few positive outcomes from Covid-19 is the increased appetite of Aucklanders to walk and cycle. A reduced capital programme would mean pausing or deferring work on all walking and cycling projects not in construction including Glen Innes to Tamaki, Point Chevalier to Herne Bay, Waitemata Safe Routes programme, Links to Glen Innes and Great North Road. In short, momentum would be lost.
- Collaboration between AT and the Agency means that over the past twelve months we have been able to find synergies in capital delivery resulting in cost savings. Several projects planned for FY21, which would be combined with projects being delivered by the Agency would now have to be deferred resulting in significant lost opportunities in capital delivery cost savings.
- While limited use may be able to be made of the Innovating Streets (Transport Agency) Fund for transitional works for these projects, that fund anticipates the projects will be fully developed, and funded, in the relatively near future.
- No further investment in electric buses and charging infrastructure is likely to be made in 2020/2021 other than three electric buses already on order.
- Funding constraints led to the back-ending of funding for roading and facilities renewals in the 2018-28 RLTP/LTP. A reduction in the size of the capital programme would mean that our ability to renew these assets would be compromised and much more expensive asset failure will be an increasing risk.

- Elected members and the community in Rodney aspire to see the seal extension programme accelerated. This is unlikely to be possible.
- Governing Body took decisions to expand funding for the Local Board Transport Capital Fund, provide for One Local Initiative(s) and create the Community Safety Fund. These programmes are important to local boards. They are likely to be heavily compromised.
- In 2019/2020 we made good progress on multi-modal projects such as Glenvar Road, East Coast Road, Lake Road, Esmonde Road and the significant improvements to Lincoln Road. It is likely these projects would all have to be deferred.
- Delays in the ferry strategy development and implementation.
- While our prioritisation of contracts in construction will mitigate most legal risk it is possible that some residual risk would remain if we were to pause local residential growth fund projects such as the Huapai intersection upgrade.

Significant risks or consequences include:

- Significant reputational issues associated with responsiveness to communities and stakeholders, with many of these projects already publicly consulted on.
- Reputational risk due to unused Regional Fuel Tax revenue which will continue to accumulate (albeit at a slightly reduced rate).
- Increased roading maintenance costs in medium term as a result of deferred renewals.
- Impact on the broader construction industry and supply chain in the context of the wider New Zealand economy.
- Significant changes to our own resourcing model with significant job losses.

AT Capital Sensitivity Analysis				
RLTP Project Name	FY21 pre covid	\$850m scenario	\$700m scenario	Comments
New Footpaths Regional Programme	4,024,731	2,079,065	1,000,000	Significant deferrals from pre Covid budget. In \$700m scenario would need to defer Links to G1, Great North Road, G12T, Point Chev to Hearn Bay, Waitamata Safe Routes
Urban Cycleway Programme	52,111,488	68,632,757	51,132,757	
Walking & Cycling Programme	5,604,685	5,818,309	3,162,511	
	61,740,904	76,530,131	55,295,268	
Downtown bus improvements	3,902,367	8,790,797	8,790,797	Contractual commitments. The programme is well underway cannot reduce or pull back delivery. Will need to finish the project.
Downtown Ferry Basin Piers 3 & 4	16,725,054	24,650,000	24,650,000	
On-going Seismic Strengthening Works		24,495	24,495	
Seismic Strengthening Programme	15,265,245	35,071,178	35,071,178	
	35,892,666	68,536,470	68,536,470	
EMU Rolling Stock	26,758,151	53,036,316	53,036,316	Significant deferrals from Covid
Murphys Rd Upgrade Bridge Improvements	7,035,826	6,864,037	6,864,037	Contractual commitment
Rosedale and Constellation Bus Stations	33,562,500	33,108,747	33,108,747	Contractual commitment
Supporting Growth - Investigation for Growth Projects	16,500,000	10,000,000	7,000,000	We will need to slowdown the Supporting Growth Alliance in the \$700m scenario. This has contractual implications
Tamaki Drive/ Ngapipi Road safety improvements		2,907,500	2,907,500	Safety related
Wainui Improvements	2,000,000	1,940,319	1,940,319	Contractual commitment
Wynyard Quarter Integrated Road Programme	6,153,283	10,298,834	10,298,834	Deferral of Land payment
	92,009,760	118,155,752	115,155,752	
Additional Seal Extensions	3,050,000	3,000,000	-	Defer additional seal extensions
Glenvar Road/East Coast Road intersection and corridor improvements	1,648,946			Will need to put on hold
Lake Road/Esmonde Road Improvements	5,337,609			Will need to put on hold
Lincoln Road Corridor Improvements	17,572,688			Will need to put on hold
Matakana Link Road	15,060,000	17,137,500	17,137,500	Continue with Matakana Link Road, 100% front loaded funding from NZTA
	42,669,243	20,137,500	17,137,500	
Proposed Deferrals from 2017-18	5,339,349			Ormistown town centre upgrade - need to put on hold.
	5,339,349	-	-	
Electric Buses and Infrastructure	2,541,760	1,270,880	1,270,880	3 buses on order
Environmental sustainability infrastructure	1,631,648	515,824	515,824	Tetra traps, EV charging poles etc.
Street Lighting Improvements	7,746,156	12,000,000	7,000,000	90% NZTA funded - LED bulbs accelerated delivery
Tamaki Drive resilience investigation		2,201,250	2,201,250	Bring forward to mitigate flooding
	11,919,564	15,987,954	10,987,954	
Greenfield transport infrastructure projects	29,134,581			Land purchases in growth areas (Redhills and Totara/Trigg Road extensions) - HIF funded may be over programme depending on funding source
Local Board Initiatives	20,842,000	17,500,000	5,000,000	Material reduction in local board projects
	49,976,581	17,500,000	5,000,000	
Orakei shared path	4,400,880	4,000,000		OLI project. Pause project
Projects funded by Rodney Targeted Rate	1,598,854	3,000,000	3,000,000	Park and Ride in Kumeu/Warkworth - design completed might need more money
	5,999,734	7,000,000	3,000,000	
Auckland Transport Operations Centres Amalgamation	5,022,972	2,511,486	5,022,972	Amalgamation mid flight
Intelligent Transport Systems	5,660,400	5,660,400	4,245,300	Slow down ITS improvements
Network Performance	10,332,900	7,749,675	5,166,450	Slow down network performance improvements
	21,016,272	15,921,561	14,434,722	

Advanced Destination Signage				
ATOC Special Events Capex				
Bus Priority: Localised Improvements	4,729,510	2,364,755	2,364,755	Bus lanes, shelters etc.
CBD Tactical Operations - Prof Services				
CPCG Approved	13,552,322	13,000,000	13,000,000	Wolverton culverts
Double Decker Network Mitigation Works				
Improvements Complementing Developments				
LTP - Customer Central				
Marae and Papakainga (turnout) Safety Programme	1,000,000	750,000	750,000	potential reduction
Parking Programme	4,239,661	2,500,000	2,500,000	slow down
PT Safety, Security and Amenity and other capital improvements	8,358,263	9,000,000	4,500,000	slow down
Regional Improvement Projects	4,261,088	3,767,974	706,477	This includes improvements / installation of cycleway, transit lanes, bus lanes, zebra crossings etc.
	36,140,844	31,382,729	23,821,232	
City Centre Bus Improvements	1,344,000			Defer
Sylvia Park Bus Improvements				
Whole of Route Bus Priority Programme - Phase 1	17,289,695	10,237,051	5,000,000	Connected communities programme - need to slow down to base level commitments
	18,833,695	10,237,051	5,000,000	
Matatia P&R	3,550,000			Pause
Papakura rail station P&R	1,792,032			Pause
	5,342,032	-	-	
Airport to Botany RTN via Manukau and Airport Access Improvements (Investiga	36,622,475	56,231,235	56,231,235	Deferral of Puhinui interchange including cost increases. This includes STAAI and A2B MRT related spend
Eastern Busway: Botany Bus Station				
Eastern Busway: Pakuranga Bus Station and Reeves Road Flyover	36,986,934	15,000,000	15,000,000	Proceed with IPA phase, but not PAA
Eastern Busway: Panmure to Pakuranga	63,779,784	69,074,582	69,074,582	EB1 increased due to deferrals
Eastern Busway: Tī Rakau Busway				
	137,389,193	140,305,816	140,305,816	
Renewals	215,231,610	199,089,239	162,000,000	Reduce renewals down towards minimum contracted levels to accommodate deferrals and lower envelope
	215,231,610	199,089,239	162,000,000	
LRGF Dairy Flat Highway Improvements				
LRGF Gills to Oteha Valley				
LRGF Hingaia SHA				
LRGF Huapai SHA	5,910,000	2,500,000		Pause
LRGF Medallion Drive Link	9,000,000	12,500,000	12,500,000	Cost increase on land
Seal Extensions	4,300,000	5,000,000	1,000,000	Reduce
Tamaki Regeneration	5,470,000			Deferral of payment for development on Tamaki regeneration.
	24,680,000	20,000,000	13,500,000	
Minor Safety Improvements	20,624,145	12,500,000	9,375,000	
Red Light Cameras	787,405			
Rural Road Safety Programme	21,766,866	16,250,000	6,093,750	Material reductions in the road safety programme would have flow on implications on targeted DSI reductions in Death and Serious Injury
Safer Communities and Speed Management	16,592,779	10,500,000	7,875,000	
Urban Road Safety Programme	47,504,888	35,750,000	13,406,250	
	107,276,083	75,000,000	36,750,000	
AT Metro Business Technology	2,733,467	3,000,000	2,733,467	Reduce base level spend in Business Technology, reduced customer facing initiatives
Core Technology Upgrades and Replacements	9,543,888	10,000,000	9,543,888	
Customer Contact Centres, Channel Technology and Innovation	2,127,297	2,750,000	2,127,297	
Innovation and Customer Centric Applications	2,264,160	2,500,000	2,264,160	
Integrated Ticketing - improvements, Replacement and National System	17,372,528	16,250,000	12,372,528	
LTP - Customer Central				
One Network ITS System Integration	194,688		194,688	
Parking Programme				
	34,236,028	34,500,000	29,236,028	
	905,493,558	850,284,204	700,160,743	

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Attachment B

AT Capital Expenditure: Above and below the line projects in \$700 million scenario

Above the line Projects and Programmes	\$700m scenario
Renewals	162.0
Eastern Busway: Panmure to Pakuranga	69.0
City Centre and Waterfront Projects supporting America's Cup	68.5
Airport to Botany RTN via Manukau and Airport Access Improvements (Investigation)	56.0
Walking and Cycling	55.3
EMU Rolling Stock	53.0
Safety projects	36.8
Rosedale and Constellation Bus Stations	33.0
Business technology	29.2
Matakana Link Road	17.0
Eastern Busway - 2-4	15.0
Wolverton Culverts	13.5
Medallion Drive Link	12.5
Wynyard Quarter Integrated Road Programme	10.0
Street Lighting Improvements - LED Programme	7.7
Supporting Growth - Investigation for Growth Projects	7.0
Murphys Rd Upgrade Bridge Improvements	7.0
Network performance - Optimisation	5.2
Local Board Initiatives	5.0
Whole of Route Bus Priority Programme - Phase 1 (Connected communities)	5.0
Auckland Transport Operations Centres Amalgamation	5.0
PT Minor Improvements	4.5
Intelligent Transport Systems	4.2
Projects funded by Rodney Targeted Rate	3.0
Tamaki Drive/ Ngapipi Road safety improvements	3.0
Parking Programme	2.5
Bus Priority: Localised Improvements	2.3
Tamaki Drive resilience Investigation	2.2
Wainui Improvements	2.0
Environmental sustainability infrastructure	1.8
Seal extensions	1.0
Marae and Papakainga (turnout) Safety Programme	0.8
Regional Improvements	0.7
Total	700.6

Below the line Projects and Programmes	\$700m scenario
Safety projects	70.6
Renewals	53.0
Greenfield transport infrastructure projects	29.0
Eastern Busway - 2-4	22.0
Lincoln Road Corridor Improvements	17.6
Local Board Initiatives	15.8
Whole of Route Bus Priority Programme - Phase 1 (Connected communities)	12.3
Supporting Growth - Investigation for Growth Projects	9.5
Seal extensions	6.3
LRGF Huapai SHA	5.9
Business technology	5.8
Tamaki Regeneration	5.5
Park and Ride programme	5.3
Lake Road/Esmonde Road Improvements	5.3
Network performance - Optimisation	5.1
Deferrals	5.0
Orakei shared path	4.4
PT Minor improvements	3.9
Regional Improvements	3.5
Walking and Cycling	2.4
Bus Priority: Localised Improvements	2.4
Environmental sustainability infrastructure	2.3
Intelligent Transport Systems	1.8
Parking Programme	1.7
Glenvar Road/East Coast Road intersection and corridor improvements	1.6
City Centre Bus Improvements	1.3
Marae and Papakainga (turnout) Safety Programme	0.3
Total	299.5

Watercare

Item	FPP budget	Proposed Budget	Change	Impacts
Central Interceptor	\$189M	\$197M	+\$8M	Committed
Network capex including renewals	\$347M	\$316M	-\$31M	<p>Committed projects, any further amendment to construction contracts would result in delayed benefits and additional costs. There will also be negative effects on the contractors who have been reliant on this pipeline of work as they emerge from the COVID lockdown.</p> <p>Planned for next year, which have not yet been contracted include significant projects such as the Western Isthmus water quality improvement programme, the Warkworth / Snells Wastewater programme, a watermain renewals programme, the Redoubt Road Reservoir Expansion, as well as other planned renewals.</p> <p>The Board of Watercare is of the view these projects must be commenced to deliver to Watercare's statutory obligations.</p>
Total Watercare	\$536M	\$513M	-\$23M	

Drought Response – Capital Programme

If dry weather persists in line with current forecasts there is a significant probability that additional treated water supply will be required during the 2021 calendar year. Watercare is with urgency looking at the feasibility of accelerating additional extractions, treatment and transmission from the Waikato River, a project which had previously been planned for mid-2020s. The first stage of this second water treatment plant will need to be brought forward and completed mid-2021. If it is concluded this is feasible to address the impacts of the current drought a further \$80m to \$100m would be required in FY2021. This would be in addition to our current forecasted capital spend of \$513m, as such a target capital spend target of lower than \$513m would be unachievable in the current environment.

Regional Facilities Auckland

Item	FPP budget	Proposed Budget	Change	Impacts
Auckland Zoo	\$16M	\$19M	+\$3M	Carryforward from uncompleted works in FY20, mainly due to COVID delays.
Aotea Centre	\$6M	\$12M	+\$6M	Carryforward from uncompleted works in FY20, mainly due to COVID delays.
Auckland Stadiums	\$6M	\$6M	-	
Auckland Art Gallery	\$5M	\$5M	-	
Auckland Live and other facilities	\$9M	\$9M	-	
Regional Facilities Auckland Total	\$41M	\$50M	+\$9M	

RFA have considered the implications of a reduction in its updated 2020/2021 capital budget (as of March 2020) from \$62.2M to \$50M. With a large proportion of this sum already contracted or committed, the following have been identified:

- Heritage restoration works for the old Art Gallery building will be deferred for a further year. Some works will be required to ensure safety standards are met, leading to temporary fixings remaining in place for 18 months;
- Carbon emissions reduction works (gas-to-electric conversions) for the Gallery and Mt Smart Stadium will be deferred;
- At Mt Smart Stadium, replacement of end-of-life floodlights on Arena 2 and stadium seats will be deferred, as will works aiming to deal with ground settlement issues;
- The VEC's heat exchange system will not be replaced this year, as planned, with some associated increased operational costs;
- Implementation of the multi-year security infrastructure improvement programme across RFA venues will be slowed down;
- IT infrastructure investment will be limited to critical systems requirements; and
- Essential marina renewals works at the Maritime Museum will be deferred, and we will not proceed with visual upgrades programmed in for delivery prior to AC36.

Panuku Development Auckland

Panuku started the base budget and deferrals from 2019/20 at \$173M and have reduced to \$130M before offering the option in the first budget review to reduce this further to \$117M. Panuku has circa \$85M under contract and in delivery or are contractually obliged to deliver in 2020/21.

A further reduction to \$100M is proposed by slowing project initiation work and deferring lower priority projects Panuku can make a savings target while generally maintaining a credible programme of capital work. Focus will be mainly on completion of projects under construction, a continuation of acquisitions to further Northcote town centre and minor pipeline preparation. Any further delay and reduction in the project initiation work and place activation areas will have a medium impact to the scale and pace of the next 3 years programme.

Item	FPP budget	Proposed Budget	Change	Impacts
AC36	\$7M	\$11M	+\$4M	Committed works, includes carry forward.
Asset renewals	\$10M	\$8M	-\$2m	
Waterfront	\$48M	\$38M	-\$10M	
Transform and Unlock	\$70M	\$31M	-\$39M	Remove contingency for cost overruns or delays
Other capex	\$38M	\$12M	-\$26M	Includes contingency on underway projects, Haumaru and property optimisation.
Panuku Total	\$173M	\$100M	-\$73M	

Attachment C: Proposed measures to achieve \$120 million savings

HIGHLY CONFIDENTIAL

Ref	Department	Measure	Description	Estimated financial impact \$m	Staff impact	Ease of implementation	Community impact
1	Corporate	Annual pay rise	s(7)(2)(i) to enable local authority to carry on negotiations. Refer Section 2.3 page 38 of consultation document	8.60	Moderate	Easy	None
2	Corporate	Voluntary pay reduction scheme	Voluntary salary reduction scheme for six months from 1 July 2020. 5% reduction \$100-175k, 7.5% reduction \$175-275k, 10% reduction \$275k and over. Assumed 75% uptake.	3.71	High	Moderate	None
3	Corporate	Voluntary 4-day weeks	Voluntary offer to staff to reduce hours e.g. 4-day working week - impact cannot be quantified	0.00	Moderate	Moderate	None
4	Corporate	Interest costs	Interest cost savings based on interest rates expected to be lower than budgeted	15.00	None	Easy	None
5	Corporate	Defer triennial property valuation	Triennial property valuation process would commence shortly for valuations effective 1 July 2021. Level of market uncertainty makes valuations difficult and likely to lead to substantially more objections to process. Enabling legislation is now in place. Propose to apply to Valuer General to defer revaluation for one year.	4.50	None	Easy	Low
6	Corporate	Travel costs	50% reduction to travel costs budget of \$1.4m. Will not affect travel within the region.	0.70	Low	Easy	None
7	Corporate	Training costs	50% reduction to staff training and conference budget of \$7.3m	3.75	Low	Easy	None
8	Corporate	Professional services	10% reduction to professional services budget of \$41m, excluding audit fees	4.00	None	Easy	None
9	Corporate	Marketing spend	Reduction of Communications department budget of \$1m, mainly in marketing and advertising. Our Auckland to continue based on high level of value for money.	1.00	Low	Moderate	Low
10	Corporate	People & Performance budget reduction	Additional 10% budget reduction for People & Performance (council's human resources function) to be achieved through efficiency measures, such as improved employee self-service.	2.60	Moderate	Hard	None
11	Corporate	Insurance claims	Reduction in insurance claims cost through more efficient claims management, including changes to excess levels	1.00	Low	Easy	None
12	Corporate	Corporate property maintenance	Improved efficiency of corporate property maintenance and renewals through re-prioritisation	1.00	None	Moderate	None
13	Corporate	Corporate property utilities costs	Building management services efficiencies to reduce utilities costs, e.g. lighting programming and new lifts in Auckland House	0.50	None	Moderate	None
14	Corporate	Print and distribution	Initiative to provide print services to CCOs. Increase document digitisation to reduce printing volumes.	0.45	Low	Moderate	None
15	Corporate	Business support services	Optimisation of business support services offering through more efficient delivery model, reducing duplication	1.30	Moderate	Hard	None
16	Corporate	Vehicle fleet	Lower fleet operating costs through reduced fleet size and usage along with other optimisation of services	0.20	Low	Moderate	None
17	Corporate	Targets	Additional savings targets allocated to Finance, Planning, Governance divisions	16.40	?	?	?
18	Healthy Waters	Healthy Waters reduction in preventative maintenance	Less preventative maintenance and reduction in small opex projects. Ties into broader workforce management initiative to significantly reduce contractors with some insourcing of specialist expertise that should reside within the Department. Reduction in outsourced works and repairs and maintenance through reducing contractors and reprioritising the programme.	2.25	None	Moderate	Moderate
19	Healthy Waters	Grants	Water Protection Fund grants stopped for one year. Represents grants to rural landowners for riparian planting and fencing.	0.17	None	Easy	Moderate
20	Waste Services	Waste collection	Reduction of waste collection budget through efficiencies, for example, reducing inorganic waste collection marketing costs	2.00	None	Moderate	Low
21	Environmental Services	Pest eradication	Delay for a year beginning the rat eradication component of the overall Te Koro o Waiheke project and pest eradication on Kawau Island, plus some reduction in large pest reduction programme and Kauri dieback research.	1.17	None	Easy	Low
22	Environmental Services	Kauri dieback enforcement	Reduced kauri dieback compliance monitoring through fewer contracted enforcement staff	0.20	None	Easy	Low
23	Environmental Services	Covenant programme on private land	Programme to support rural landowners restore high ecological value sites. Scaled back through fewer contracted staff. The contractors provide specific restoration plans (e.g. what to plant, maintenance and fencing needs) for rural property owners.	0.12	None	Easy	Low
24	Environmental Services	Grants	Regional Natural Environment Heritage Grant reduction (total grant budget \$2.9m). This contestable grant is for community led conservation and low carbon living projects. Reduction of 14% proposed.	0.41	None	Moderate	Moderate
25	Environmental Services	Staff reductions	Mix of staffing initiative s(7)(2)(i) to enable local authority to carry on negotiations. Refer Section 2.3 page 38 of consultation document	0.39	Low	Easy	None
26	Regulatory Services	Front of house service reductions	Review front of house services and reduce with driving uptake of online and telephone services to maintain service (net of redundancy costs)	0.34	Moderate	Moderate	Low

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Attachment C

Ref	Department	Measure	Description	Estimated financial impact \$m	Staff impact	Ease of implementation	Community impact
27	Regulatory Services	Animal Shelter consolidation	Reduction in number of animal shelters from 3 to 2, supported by operational changes to retain service levels. Waiheke animal shelter closure with operational changes to support ongoing service. (net of redundancy costs)	0.30	Moderate	Moderate	Low
28	Regulatory Services	Staff measures	Pausing induction, graduate and training programmes for one year. Moderate impact on staff, but also manages expected lower consenting volumes.	0.70	Moderate	Moderate	Low
29	Regulatory Services	Process optimisation	Optimisation and automation of consenting processes, such as billing, to significantly reduce manual work (net of redundancy costs)	5.00	High	Hard	None
30	Customer & Community Services	Staff management	Management of staff to avoid overtime, no use of temporary staff and reduction in contingent workers across all services	1.90	Low	Moderate	None
31	Customer & Community Services	Catering and entertainment	Reduction in budget for catering and entertainment	0.35	Low	Easy	None
32	Customer & Community Services	Outsourcing	Outsourced works savings target of 5% across the division, to be delivered through efficiencies	1.25	None	Moderate	None
33	Parks Sport & Recreation	Pool closures	Continued closure of pools due to drought restrictions means operating cost savings in staff and utilities (assumes 1 October re-opening)	0.80	High	Moderate	High
34	Parks Sport & Recreation	Scaling back programmes	Gyms move to in-house developed fitness programme, replacing Les Mills licence costs	0.18	None	Easy	None
35	Parks Sport & Recreation	Scaling back programmes	Reduced park activations and Arataki Visitors Centre programme delivery	0.24	None	Easy	Low
36	Parks Sport & Recreation	Reduced events	Reduced regional park events for one year (e.g. cancellation of Ambury Farm Day and Sculpture in the Gardens at the Botanic Gardens)	0.09	None	Easy	Low
37	Parks Sport & Recreation	Parks maintenance	Regional parks reduction in planned general and track maintenance	0.26	None	Easy	Low
38	Parks Sport & Recreation	PSR other measures	Reductions to graduate programme and additional reductions in professional services spend	0.40	Low	Easy	None
39	Parks Sport & Recreation	Grants	Sport and Recreation Facilities Investment Fund deferral of unallocated grant funding	3.00	None	Easy	Low
40	Arts Culture & Events	Events	Cancellation or scope change of events (Matariki and SUSO changed delivery, Music in Parks and Movies in Parks reduced subject to LDI decisions, Waitangi Ki Manukau reduced, citizenship ceremonies digital delivery to end December, heritage event cancelled)	0.52	None	Easy	Low
41	Arts Culture & Events	Scaling back programmes	Reduction in programmes delivered through community centres (regional budget not LDI)	0.42	None	Easy	Low
42	Arts Culture & Events	Scaling back programmes	Reduction in arts and culture programmes delivered at arts facilities (regional budget not LDI)	0.45	None	Easy	Low
43	Arts Culture & Events	Consequential opex	Consequential opex not required due to community centre build delay (Randwick Community Centre in Manurewa)	0.30	None	Easy	None
44	Arts Culture & Events	Grants	Due to anticipated reduction in activity, lower Q Theatre grant, no Unesco Music grant	0.27	None	Easy	Low
45	Arts Culture & Events	Grants	Regional Events Fund reduction savings through fewer events being held	0.20	None	Easy	Low
46	Arts Culture & Events	Grants	Combine regional contestable events funds (Regional Events, Community Empowerment, Arts and Culture) into one fund and reduce overall amount	0.20	None	Easy	Low
47	Libraries	Scaling back programmes	Reduction in library programmes across the region based on experience of low attendance (poor value for money)	0.20	None	Easy	Low
48	Libraries	Budget adjustment	Budget correction for Fit for the Future efficiencies adjusted in FY21 and outer year budgets	1.60	None	Easy	None
49	Community Facilities	Budget adjustment	Budget correction for prior year permanent savings adjusted in FY21 and outer year budgets	0.50	None	Easy	None
50	Strategy & Service Integration	Staff reductions	Mix of staffing initiatives including not filling vacancies and adjusting work programmes	0.49	Low	Easy	None
51	Governance	EM remuneration	Remuneration Authority set elected member remuneration below budgeted level	0.30	None	Easy	None
52	Governance	IMSB budget	The IMSB has proposed a budget reduction of \$200k (total budget \$3.1m)	0.20	None	Easy	None
53	Governance	Mayoral office budget	The Mayoral Office has committed to an underspend of the statutory budget	2.00	None	Easy	None
54	Governance	Staff reductions	Staff reductions initiatives	0.65	Moderate	Hard	None
55	Planning	Professional services	Additional reduction in professional services above corporate 10% reduction	0.38	None	Easy	None
56	Planning	Grants	Reduction in Regional Historic Heritage grant for one year	0.10	None	Easy	Low
57	Other	Other	Other minor items	0.25			
TOTAL				95.26			
Other initiatives still to be identified including operating model changes				24.74			
TOTAL SAVINGS				120.00			

Attachment D: \$100 million of further savings and temporary service level reductions

Measure	Description	Potential Financial impact \$m	Staff impact	Ease of implementation	Community impact
Reductions under 3.5% rates increase scenario					
Group efficiency target	Set a formal target for the removal of duplication between organisations through increased shared services and implementation of any structural changes the council decides to make following the completion of the CCO review. While this will be informed by the CCO review findings, it would be a separate process. This should improve back-office efficiency without impacting front line services. While implementation might be challenging, it should be achievable if given a strong mandate and could lead to larger savings over time.	5.0	High	Hard	None
AT additional savings	Auckland Transport (AT) is prepared to take a further \$5m un-solutioned operational expenditure reduction target. Revenue from sources such as rentals can also be increased by \$2m.	7.0	High	Moderate	None
RFA additional savings	Regional Facilities Auckland (RFA) can reduce staff costs by a further \$2.2m by considering options such as analysis of a 4-day week, workforce optimisation strategies and voluntary salary reductions. Further discretionary savings of \$1m can be achieved across repairs and maintenance, professional services, advertising and marketing and IT expenditure. RFA is also projected a net benefit of \$2.6m from the extension of the WINZ Wage Subsidy.	5.8	High	Moderate	None
Panuku additional savings	Panuku have identified a further \$3m of savings, through staff costs, functional support and corporate operating costs.	3.0	High	Moderate	None
Public Transport service levels	Temporary reduction in some public transport services including reduced frequency or space provision. Additionally, delaying the rollout of new, or increased services. Total cost reduction would be \$20m, but about half is NZTA funding. This would include reviewing the rideshare trial scheme currently operating in Devonport.	10.0	None	Easy	High
AT enforcement measures	Deploying new vehicles and cameras to enforce special vehicle lanes and road safety rules. This will improve safety and improve trips times for buses, high occupancy vehicles and freight. This will be particularly important as many Aucklanders will perceive private motor vehicle travel as safer than public transport given COVID-19 risks. It will also increase revenue.	7.0	None	Moderate	Low
Auckland Live & Art Gallery exhibitions	Additional programming cuts can be made to Auckland Live's public programmes (non-commercial) of 20% and to Auckland Art Gallery's exhibition programme with the now proposed cancellation of a third significant exhibition, to generate a combined \$1.1M savings. This is in addition to the previous cancellation of the Monet and Picasso exhibitions.	1.1	Moderate	Easy	High
Project readiness	In line with the deferral of capital expenditure spend on Panuku's project and procurement planning can be reduced. For some projects, completing readiness work too far in advance of delivery may lead to rework being required. Not progressing readiness work will mean longer lead in times should capital funding become available in the future.	2.4	High	Moderate	Low
2021 Events	The current budget position includes \$30m of additional funding to support the large programme of events in 2021 including the 36 th Americas Cup. Scaling this back to \$20m would mean less activation and promotion by ATEED and Panuku with less ability to leverage wider economic benefits from the events. It would also mean less traffic management and event PT services which may reduce public attendance, create a poorer visitor experience and may result in greater disruption when large events are being held.	10.0	Low	Hard	Moderate
Locally Delivered Initiatives	Reduction in Locally Delivered Initiative funding by 10% for 2020/2021. Could initially try to achieve by local boards offering savings, then consider a change to the size of funding envelope if necessary. Note that the Governing Body can only change the total envelope, the distribution between boards is determined by the Local Board Funding Policy.	3.0	Low	Moderate	Moderate
		54.3			
Additional reductions under 2.5% rates increase scenario					
Locally Delivered Initiatives	Reduction in Locally Delivered Initiative funding extended from 10% to 20% for 2020/2021.	3.0	Moderate	Hard	High
Maintenance spend in open spaces	A temporary reduction in service levels for the maintenance of open spaces across Auckland. This could include reduced mowing frequencies, removing some litter bins, closing some public toilets and less frequent footpath cleaning.	8.0	Low	Moderate	High
Waterfront public space maintenance	Public spaces in the Wynyard Quarter are seen as high profile and therefore cleaning etc is at a high level. This could be temporarily reduced to align with reduced international visitors.	0.5	None	Moderate	Moderate
Fare concessions	Temporary removal of some concessionary fares, e.g. topping up super gold card concessions for exempt ferries and afternoon peak services.	4.0	None	Moderate	High
Park & Rides	Implement charging for park and ride facilities to incentivise feeder services (revenue increase)	0.9	None	Moderate	High

Regional grants	Further reductions to regional grants for one year	5.0	Low	Easy	High
		21.4			
Other possible reductions					
Mayor proposal: Living Wage	Defer extension of living wage to contracted cleaners for one year.	1.3	None	Easy	High
Mayoral proposal: Housing First	Do not proceed with the proposal to continue support for Housing First.	0.5	None	Easy	High
Mayor proposal: Climate change	Defer foundation work for climate change interventions	0.9	Low	Easy	High
Inorganic Collection	Suspending the inorganic waste collection, meaning that it would not be re-introduced until 1 July 2021. The savings are net of estimated contract penalties. This may lead to increases in illegal dumping.	7.0	None	Moderate	High
Community facilities	Permanently close and vacate a proportion of community facilities.	1.0	High	Hard	High
Road & footpath maintenance	Temporary reduction in maintenance standards for 12 months. Prioritise maintenance base on safety and asset integrity considerations. Some impact on safety outcomes and DSI metrics. May lead to higher whole of live costs in some cases.	7.0	Low	Moderate	High
Economic development	ATEED's economic development activities are discretionary by nature and could be reduced. ATEED is currently moving urgently to focus all its resources on achieving the biggest impact on regional economic recovery possible: attracting government (and private) investment; working with key industry sectors (tourism, screen, food and tech) to recover; and managing existing commitments. Reducing funding at this point could put the economic recovery of some sectors at risk, and mean a greater reliance on central government to support Auckland businesses and employment.	5.0	High	Moderate	High
Maori outcomes	Defer some initiatives intended to improve Maori outcomes, (e.g. marae development).	2.0	Moderate	Moderate	High
		24.7			
Total potential reductions		100.4			

Attachment E: Analysis of asset recycling opportunities

Purpose

1. The purpose of this document is to provide an outline of asset recycling or optimisation opportunities which may be available to help mitigate the financial impacts of the COVID-19 situation on the Auckland Council group.

Introduction

2. Asset recycling is an important lever for the council allowing capital to be invested in the most strategically important activities. This is an aspect that both credit agencies and central government consider when assessing Auckland Council financial position.
3. Asset recycling has been underway since amalgamation. At amalgamation Auckland Council received a number of assets (property, investments, business operations) from legacy councils and over time there has been some rationalisation activity. In 2015 the council received advice from EY and Cameron Partners (reports on Alternative Sources of Finance), with some further rationalisation then occurring.
4. The 10-year budget has financial targets from asset recycling (excluding asset sales linked directly to specific projects and programmes such as the unlock and transform programme). These targets are as follows:

Proceeds (\$m)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Budget	24	24	24	20	20	20	20	20	20	20
Actual	44									

5. The Emergency Budget provides an opportunity to increase the budget targets and accelerate asset recycling to reduce the debt requirement. However, this may require an alternative approach to approving property disposals.
6. The council has three potential asset recycling opportunities
 - a. Accelerate sales of property (includes Panuku rationalisation pipeline)
 - b. Consider ongoing investment in non-core commercial assets
 - c. Further optimisation of service property
7. Each recycling option differs in their liquidity – how quickly the asset can be converted to cash. Shares (e.g. in Auckland International Airport) are very liquid with an active market, sale of property less so; particularly with the anticipated recession. The timing of when proceeds may be realised is a key consideration to meet the budget parameters.
8. The current economic environment may result in less value being realised than if a sale occurred last year. This is hypothetical and not relevant to the key trade-off decisions against other financial levers (debt, capital, operating cost). However, some of the opportunities have a long lead time and this is a key consideration when assessing the ability to meet the budget parameters.

Accelerate sale of property (includes Panuku rationalisation pipeline)

9. The most common asset recycling is the property rationalisation managed by Panuku. Panuku operate across the Group identifying property (land and buildings) which do not have a current or future service use and could be candidates for rationalisation.
10. In addition, Watercare have a number of properties which are now surplus to their future requirements which can be added to the rationalisation pipeline.
11. Panuku face some constraints to effective property rationalisation. These include
 - a. consultation requirements – public, iwi
 - b. Public Works Act requirements

- c. political and community opposition to the sale
- d. natural incentive to hold property for an unidentified future use

12. Notwithstanding resolutions made by the Finance and Performance Committee some local boards do not support rationalisation decisions resulting in properties being in the pipeline for a number of years. This reduces the proceeds realised from these sales and takes significant staff time to manage.
13. The rationalisation and sales process is labour intensive and the current portfolio includes smaller properties (rather than few large properties). To accelerate the process Panuku require support, in particular approval from the Emergency Committee to mobilise the sale of the identified portfolio of assets.

Consider ongoing investment in non-core commercial assets

14. The council owns certain assets to facilitate the delivery of core business services and outcomes rather than financial returns.
15. The council also provides services or owns assets in areas which are either not core to the council meeting their objectives, can be provided by the free market or council can achieve its objectives through mechanisms other than ownership (e.g as a regulator).
16. Many of these non-core assets are a result of amalgamation rather than being strategic decision making of the council.
17. As part of the additional funding commitment for the City Rail Link project \$50 million was identified as proceeds from the sale of carpark concessions and incorporated into group budgets. Work is underway by Auckland Transport to implement but no additional proceeds are currently anticipated at this stage.
18. Albert Street and Bledisloe buildings could both be considered for sale with the council as a long-term tenant. While this would generate a cash inflow and introduce a new source of funds the lease agreement is considered as debt by credit agencies and would not assist the debt to revenue ratio. Embedding changed ways of working (staff working from home) may mean that the council group require less office space in the future and this will be considered as part of future budgets.
19. The council also holds the following two strategic assets which it could consider as part of an asset recycling opportunity. As strategic assets, any disposal would require an LTP amendment process with public consultation.
- a. Auckland International Airport (AIAL) – partial or full sell down
The council own approximately 18% in AIAL (Market value \$1.5 billion). Due to Covid-19 impacts the AIAL share price is around 30% lower than this time last year. Notwithstanding the fall in value this is the most liquid asset owned by the council (other than cash). A shareholding of 10% provides the council the opportunity to block any full takeover of AIAL.
 - b. Ports of Auckland (POAL) – partial or full sell down
POAL have previously been listed on the NZX until the former Auckland Regional Council acquired 100% of the shares. There is an opportunity for the council to sell all or part of its investment. Due to the uncertainty around the Upper North Island Supply Chain Strategy this opportunity is unlikely to maximise the potential value at this time.

Optimisation of council investment in community assets

20. The council has significant investments in community assets to support service delivery and community outcomes. Opportunities exist to optimise the ownership of these assets and whether there is an alternative approach to the council achieving their desired outcomes.
21. Many of these opportunities have higher change impact (staff, community) and involve both Governing Body and Local Board in decision making. No substantive analysis has been undertaken

of these opportunities. Investigation into these opportunities could inform the next 10-year Budget and the Value for Money committee could consider as part of their work programme.

22. The following opportunities have been identified:

- a. Services that the council could exit as there is also adequate private market provision.
This includes:
 - i. gyms
 - ii. holiday parks
 - iii. early childhood education.
- b. The council could consider and reduce the scale of investment in certain activities. This includes:
 - i. provision of golf courses.
- c. Optimisation and rationalisation of community facilities (land and buildings). This includes:
 - i. consolidation into community hubs
 - ii. land which is part of a community facility but is not currently used or needed to provide council services
 - iii. low use, poorly positioned assets (buildings and/or land)
 - iv. alternative service delivery model which includes a non-asset owning response to achieving outcomes
 - v. sale of assets to community groups.

List of potential current opportunities

23. Considering all of the above, the following table sets out a list of potential asset recycling opportunities that may potentially help mitigate the current financial situation. Realising these opportunities in a short timeframe would be challenging, requiring a clear political mandate and different approach to approval.

s7(2)(i) to enable local authority to carry on negotiations



Properties not approved for sale by the Finance and Performance Committee

Address	s7(2)(i) to enable local authority to carry on negotiations
2 Wiremu Street, Balmoral	
34 Moore Street, Howick	
14 Baxter Street, Warkworth	
26-32 O'Shannessey Street, Papakura	
36 Coles Crescent, Papakura	
2 Forrest Hill Road, Forrest Hill	

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Address	s7(2)(i) to enable local authority to carry on negotiations
24R Linwood Avenue, Forrest Hill	
80 Vincent Street, Howick	

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Proposed pipeline of non-mandated properties 2020/2021

Address	s7(2)(i) to enable local authority to carry on negotiations
5R Ferguson Road, Mangere	
31R Killington Crescent, Mangere	
45 Georgina Street, Freemans Bay	
72R Karaka Road, Beachlands	
2R Ti Rakau Drive, Pakuranga	
12 (part) Waimauku Station Road, Waimauku	
37 Olive Road, Penrose	
26 Princes Street, Otahuhu	
19/28 and 20/28 Remuera Road, Newmarket	
20 Hopetoun Street, Freemans Bay	
3 Ponsonby Road, Freemans Bay	
300 West Coast Road, Glen Eden	

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Address	s7(2)(i) to enable local authority to carry on negotiations
4 and 6 Brightside Road, Stanmore Bay	
472, 474, 476, 478, 480, 482, 484, 486, 488, 1/490, 2/490, 492, 494, 496, 1/498, 498B, 500, 502, 599A, 616A and 750A Whangaparaoa Road, Stanmore Bay	
119A May Road, Mt Roskill	
20 (part) Uxbridge Road, Howick	
36 Cooper Street, Grey Lynn	
143 Keri Vista Rise, Papakura	
145 Keri Vista Rise, Papakura	
16 Fencible Drive, Howick	
12 Western Road, Laingholm	
1-5 Lippiatt Road, Otahuhu	
4 Blomfield Spa, Takapuna	
1/328 Lake Road, Hauraki	
25R Alfred Street, Northcote Point	
2 The Strand, Takapuna	
72 Wood Street, Papakura	

Address	s7(2)(i) to enable local authority to carry on negotiations
3 Victoria Road, Devonport	
520 Dominion Road (aka 173 Balmoral Road), Mt Eden	

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Proposed pipeline of non-mandated properties 2021/2022 and beyond

Address	s7(2)(i) to enable local authority to carry on negotiations
Adj. 45 Brandon Road, Glen Eden	
Rear 18-22 Keven Road, Clarks Beach	
34,36-38 Greys Avenue (South Town Hall), Auckland Central	
8 Magnolia Drive, Waiuku	
738 Mt Eden Road, Mt Eden	
30 Willerton Avenue, New Lynn	
Lot 6 DP 119411 Trojan Crescent, New Lynn	
Lot 1 DP 36821 State Highway 16, Reweti	
220-240 Shaw Road, Titirangi	
3R Taylor Road, Mangere Bridge	
23 Waipuna Road, Mt Wellington	
31 & 17R Aspiring Avenue & Hilltop Road, Clover Park	
11R Birmingham Road, Otara	

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Address	s7(2)(i) to enable local authority to carry on negotiations
84 Cosgrave Road, Ardmore	
76R Aberfeldy Avenue, Highland Park	
111R Golfand Drive, Howick	
9R Fortyfoot Lane, Sunnyhills	
1R Hutchinsons Road, Highland Park	
54R McCahill Views, Highland Park	
28R Simon Owen Place, Howick	
100R Uxbridge Road, Howick	
13 Davern Lane, New Lynn	
4/222 Edmonton Road, Te Atatu South	
67A Glengarry Road, Glen Eden	
2R Keeney Court, Papakura	
12R Rockfield Road, Ellerslie	
24 Saleyard Road, Whitford	
R 105 Stott Avenue, Beach Haven	
Land off Verbena Road, Birkdale	
R 107 Lynn Road, Bayview	
36-38 Waipareira Avenue, Henderson	
54 Whitford Park Road, Whitford	
751 Whitford-Maraetai Road, Whitford	

Address	s7(2)(i) to enable local authority to carry on negotiations
2 Popes Road, Takanini	
Sec 1 SO 427897 and Sec 2 SO 427897 Albatross Road, Red Beach	
213R Fisher Parade, Sunnyhills	
107R Uxbridge Road, Cockle Bay	
2R (part) Bucklands Beach Road, Bucklands Beach	
116R Reeves Road, Pakuranga Heights	
2/97 Mahia Road, Manurewa	
R 33A Tauhinu Road, Greenhithe	
1B Rankin Avenue, New Lynn	
7 Waitai Road, Waiheke	
9 Tagalad Road/aka 6a Nihill Crescent, Mission Bay	
13 Crown Lynn Place, New Lynn	

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Attachment F: Proposed draft budget 2020/2021

Entity	Auckland Council	Auckland Transport	Watercare	RFA	Panuku	ATEED	CRL	Group adjustments (incl. POAL)	Total before any elimination entries
Capital Investment	450	710	513	50	100	0.2	395	79	2,297
Total direct revenue	292	607	645	41	66	27		231	1,909
Employee Benefits	577	120	81	44	29	22		91	964
Other direct expenditure (including grants)	714	861	192	54	49	52		50	1,972
Total direct expenditure	1,291	981	273	98	78	74		141	2,937
Net direct expenditure (income)	999	374	-	57	12	48		-	1,028