Auckland Council

Annual Budget 2022/2023

Final Mayoral Proposal

1 June 2022

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Foreword

The final Mayoral Proposal for the 2022/2023 financial year is focused on taking urgent action to tackle climate change while managing Auckland Council's finances prudently in an increasingly uncertain environment.

The Intergovernmental Panel on Climate Change (IPCC) released its Sixth Assessment Report recently. It issued a stark warning to the world: to avoid a climate catastrophe that will have severe impacts on our children and grandchildren, we need to take urgent action to drastically reduce climate emissions.

Though sobering, the warning from the IPCC is not a surprise. The effects of climate change are already impacting our city and country, with extreme weather events like droughts and floods increasing in frequency and putting our communities and infrastructure at risk. Last year was New Zealand's hottest on record and recent predictions suggest parts of Auckland could face a sea level rise of 30cm over the next 10 to 20 years.

In 2019, Auckland Council unanimously voted to declare a Climate Emergency and in 2020 adopted Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan. This Mayoral Proposal aims to act on that declaration and the ambitious plan that followed it. It does so by proposing a new funding mechanism – a Climate Action Targeted Rate (CATR) – that will raise $574 million over 10 years, ringfenced for direct climate action in Tāmaki Makaurau. Funds raised through the CATR will be leveraged to seek to unlock a further $482 million through central government co-funding and other sources.

The CATR will enable over $600 million of new investment in bus services, including 10 new frequent bus routes in the south, west and east of the city, an extension to the frequent service on the Northern Express up to Hibiscus Coast Station, and improvements to nearly 70 existing bus routes region wide.

Hundreds of millions of dollars more will also go towards new low-emission ferries, new electric or hydrogen buses, completing key links in the city's cycling network, delivering 35 kilometres of upgraded footpaths and pedestrian crossings to improve walkability, and planting thousands of six to eight-year-old native trees predominantly in low-income areas with low canopy coverage.

Feedback from our consultation with Aucklanders shows an overwhelming majority—two-thirds of submissions—support this proposal. A concurrent independent survey of nearly 4000 Aucklanders conducted by Kantar Public also confirmed a 12 per cent margin of support for the proposal. Seventeen of Auckland's 21 local boards support the CATR and a further two partially support it, indicating overwhelming support at the local board level. Aucklanders have given Council the mandate and I recommend it for adoption.

COVID-19 continues to cause adverse impacts and uncertainties for people and organisations, including Auckland Council. Unfavourable economic conditions such as higher inflation and interest rates exacerbate the challenge. The projections in April show growing operating cost pressures resulting in an operating funding gap peaking in 2025/2026, which a new Council will need to respond to.

Budget decisions by elected members during this electoral term and since the pandemic began have been tough but prudent, with a focus on reprioritising expenditure and finding efficiencies while maintaining the services and facilities Aucklanders value and rely on. As a result, Auckland Council is in a strong position and can put together a plan with a number of options to respond to the challenges and uncertainties ahead. All options will involve trade-offs. On balance, I propose a combination of modest deferrals of capital expenditure over the next three years and some operating cost reductions from 2023/2024 to achieve balancing the operating budget by 2027/2028 in line with the current 10-year budget. Council should continue to strive to find value for money savings through increased efficiencies which will be necessary to meet the proposed annual savings of $90 million built into the current long-term plan. If inflation were to continue at high levels, then councillors would also need to consider closing the gap between a 3.5 per cent rates increase and any higher increase in costs that Council may be facing.

This is an annual budget for 2022/2023, not a 10-year budget or an amendment to the current 10-year budget. This proposal does not pretend to exercise a right that I do not have to prescribe to the incoming Mayor and Council what they should do in budget years from 2023/2024. It is, however, appropriate to outline the menu of options that a new Council will need to choose from, should costs in future years exceed revenue. By the time of the next Long-term Plan in 2023/2024, Council will have a clearer picture of the recovery of its income post-COVID and of future cost pressures. Taking into account circumstances and the views of Aucklanders at that time, it is for the incoming Council to determine the shape of budgets from 2023/2024 to ensure prudent and sustainable financial management.

Phil Goff

Mayor of Auckland

Climate action

Context

1. The United Nation's Intergovernmental Panel on Climate Change (IPCC) recently released a series of reports that provide a grim warning of the consequences of failing to act on climate change. The message is clear - time is running out. Global heating is happening now, with New Zealand experiencing its hottest year on record in 2021 and Auckland expected to experience more common and more severe extreme weather events. We have a window of opportunity to avoid global heating producing devastating environmental and economic consequences but it is closing fast.

2. As New Zealand's largest city and economic engine, Auckland has a responsibility to play its part in combating climate change and leave a better future for our kids and grandkids.

Climate action package

3. The proposed climate action package is based on four principles: the actions must have high impact, wide regional benefits, address inequity and start fast. The package will lay the foundation for reducing future emissions but will additionally have important co-benefits such as addressing congestion and pollution.

4. It will provide more frequent and accessible bus services across the region, new electric and low-emission ferries and electric buses, key links in the city's cycling network, upgrades to footpaths and pedestrian crossings to improve walkability, and boosted funding to increase urban tree canopy in low-income areas with low coverage.

5. The bus component of the package will result in 10 new frequent bus routes and 69 improved bus routes, as well as 79 additional electric or hydrogen buses. This will make improved services available to more than a million Aucklanders and see 170,000 more people brought within 500m of a frequent bus route. This will result in at least 14.7 million additional annual bus trips by 2032, with further uplift possible if additional supporting policy changes are made.

6. The package will also include six to seven additional low-emissions ferries, wharf upgrades and battery charging infrastructure, an additional 18km of safe cycle facilities, seven local area cycling networks, and at least 35km of walking connectivity improvements across Auckland.

7. Further, the climate action package includes measures to adapt to the impacts of climate change with the funding of nearly 15,000 six to eight-year-old native trees planted in areas with the most heat vulnerability and lowest canopy cover. Funding will be provided for over 4000 trees and plants for tiny forests, food forests, māra kai and bush remnants, as well as grants for rongoā planting. This is in addition to trees planted under the Mayor's Million Trees programme.

Targeted rate and government support

8. The package is proposed to be funded by a region-wide differentiated targeted rate ($574 million) based on property value, as well as public transport fare revenue ($128 million) from additional bus services and co-funding from the government for transport activities ($354 million). The proposed targeted rate for the median value residential property over a million dollars would cost around $1.12 a week, or around $58 a year. This modest contribution will enable us to lay the foundation for future reductions in emissions and reducing the impact of global heating, which benefits everyone.

9. I welcome the Government's first Emissions Reduction Plan released in May, which sets out a path and a budget to achieve the Government's net-zero 2050 target. The Emissions Reduction Plan shows why the CATR is essential. It says that to reach New Zealand's 2050 emissions target, we need to largely decarbonise transport through both modeshift and adopting low-emissions vehicles. Our climate action proposals are highly complementary with the modeshift actions contained in the government's Emissions Reduction Plan, which calls for improved public transport services and walking and cycling infrastructure.
10. The Government will be investing $1.2 billion nationwide in the transport sector through the Climate Emergency Response Fund, including $375 million to support modeshift to public transport, walking and cycling, $61 million for retaining and recruiting bus drivers, and $41 million for decarbonising the public transport bus fleet. These investments will support our transport investment proposed under the CATR — such as improved bus services and better walking and cycling infrastructure. We will work with the Government over coming months to see how Government funding might help advance the objectives set out in the Climate Action Targeted Rate. The Government has indicated that it will prioritise funding for projects that are ready to start soon, and which councils are willing to co-fund.

Public support

11. Consultation results reflect strong support from the public for the proposal. In total, 9363 responses were received, with around two-thirds majority support from individuals (68 per cent), organisations (66 per cent) and Māori entities (67 per cent). Submissions by local board area show all but one local board areas have more than 50 per cent support for the proposal. Strongest support was received from submitters aged under 34. More details can be found in Appendix A.
12. To complement the public consultation on the climate action package, Council commissioned Kantar Public (formerly Colmar Brunton) to conduct an independent survey to get a representative view of public opinion. Nearly 4000 Aucklanders were surveyed online and by phone. The sample was demographically representative of Aucklanders, with around 200 surveyed per local board area (except for Aotea Great Barrier and Waiheke). Survey data was weighted to align with Statistics New Zealand population data in terms of age, gender, ethnicity, local board size and household income/size. The process and result were peer reviewed by the University of Auckland. The survey was independent and robust, with a maximum margin of error of +/- 1.6 per cent. The survey confirmed a 12 per cent margin in support of the proposed climate action package and targeted rate, with 48 per cent supporting and 36 per cent opposing.

Conclusion

13. For New Zealand to reach its climate goals, Auckland needs to play its part and is well placed to drive many of the changes needed to reduce emissions and build a more sustainable future. There is a growing awareness and political drive to do more to combat climate change as was evident in the recent Australian election result. Aucklanders have given their mandate to their elected representatives to proceed with the proposal and the targeted rate. I urge Councillors to adopt these measures as part of the Annual Budget 2022/2023.

Our finances

Recap

14. In June last year, we signed off our Recovery Budget (the 10-year Budget 2021-2031, or Long-term Plan), which included a record $32 billion capital investment over the next decade.

Investment in transport infrastructure has increased from the $20 billion over 10 years as forecast in the 2016 Auckland Transport Alignment Project to over $31 billion today and we have considerably increased investment in water supply to meet growth and climate change contingencies. We were proud to have put together an ambitious programme focused on addressing traffic congestion and road safety, supporting growth in housing, protecting our environment, improving water quality and supply, and beginning to tackle climate change.

15. COVID-19 had a damaging and disruptive effect on Council's finances, cutting revenue by approximately $900 million as of 2020/2021. We have sought to largely maintain our high investment in infrastructure, but we have had to make some difficult decisions because of the financial constraints created by COVID-19. The high level of investment was made possible through:
    - raising general rates by 5 per cent in 2021/2022 and 3.5 per cent per annum in subsequent years
    - an increase of our debt to revenue ratio limit to 290 per cent
    - a target of $430 million of asset recycling over seven years
    - $90 million per annum of cost saving.
16. Our Recovery Budget acknowledged the high level of uncertainty associated with COVID-19 and the broader economic trends. To address this uncertainty, we ensured that there was sufficient financial flexibility to help deal with future shocks.
17. Annual Budget 2022/2023 is the second year of our 10-year Recovery Budget, with $2.9 billion capital investment and $4.8 billion operating expenditure across the Auckland Council group. The planned increase in average general rates is 3.5 per cent.
18. It was recognised in the annual budget consultation documents that COVID-19 has continued to have an adverse effect on Council's non-rates revenue. With the Delta and Omicron outbreaks, revenue that is dependent on public usage and participation was down, including public transport patronage, visits to council venues and facilities and attendance at events. Resumption of dividend from Auckland International Airport (AIAL) was delayed and revenue of Ports of Auckland reduced.
19. Rapidly evolving and unfavourable economic factors such as higher inflation and interest rates have resulted in operating cost pressures. The growing pressures are able to be mitigated for the next financial year but they are projected to intensify from 2024/2025.
20. The initial Mayoral Proposal set out a range of mitigations to address these challenges, including utilising some of the better off funding from the Government next year and setting out service prioritisation criteria to guide the council group achieving cost reductions in the form of efficiency and low-priority service cuts starting from 2023/2024.
21. As a result of the proposed budget mitigations, projections showed that Council could continue to operate prudently and remain on track to fully funding depreciation by 2027/2028. The consultation budget acknowledged the environment of high uncertainties and volatility and that further mitigations might be required if conditions deteriorated before the final budget decision.

Public support

22. We received 7106 submissions on the proposed budget approach and the draft criteria for prioritising services, with the majority of this feedback being in support. Many submitters commented that the approach was sensible and pragmatic. Other common comments were that Council should focus its spending more on core or essential services, should prioritise spending on transport and climate initiatives and that Council should seek out new funding sources other than rates.

Updated position

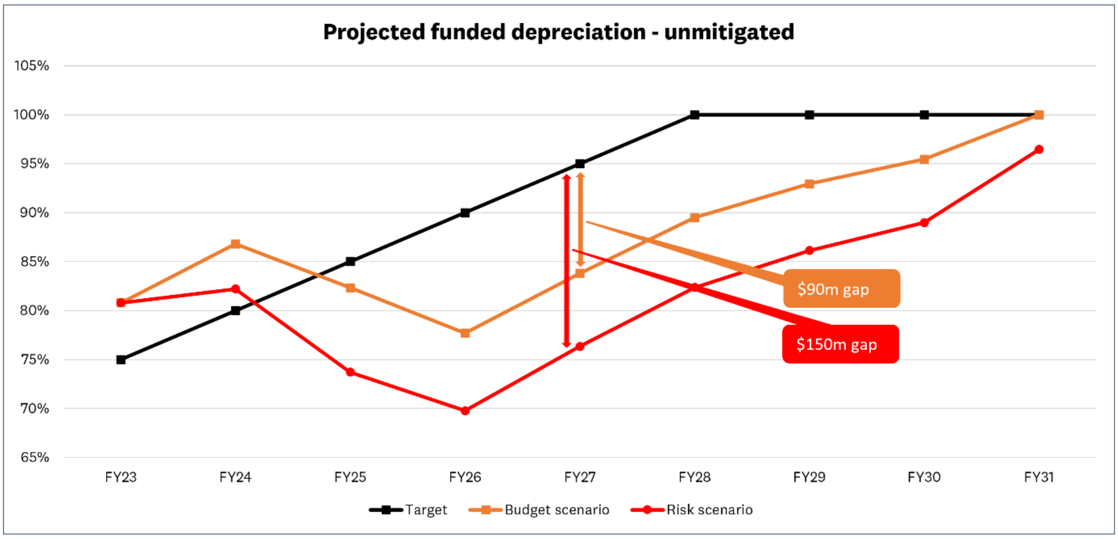
23. Since December 2021, inflation has increased more than previously predicted and the Reserve Bank has responded by recently lifting the Official Cash Rate twice by 50 basis points. Term interest rates have moved higher in line with global inflation and interest rate trends. Supply chains and labour markets have also experienced further disruption. These factors have all added more pressures to Council's operating budget, increasing the cost of providing services and the interest cost for the unhedged portion of our borrowing.

24. A review of budgets across the council group completed in early April 2022 assessed the impact of the above factors on the group's overall operating position. Those projections indicated that the operating budget challenges had more than doubled compared to the consultation budget.

25. Some of the pressures will be temporary but some may be persistent. After adjusting for around $35 million per annum of operating capacity available in our Recovery Budget, the enduring unmitigated operating cost pressure was projected to be around $90 million from 2024/2025 onwards.

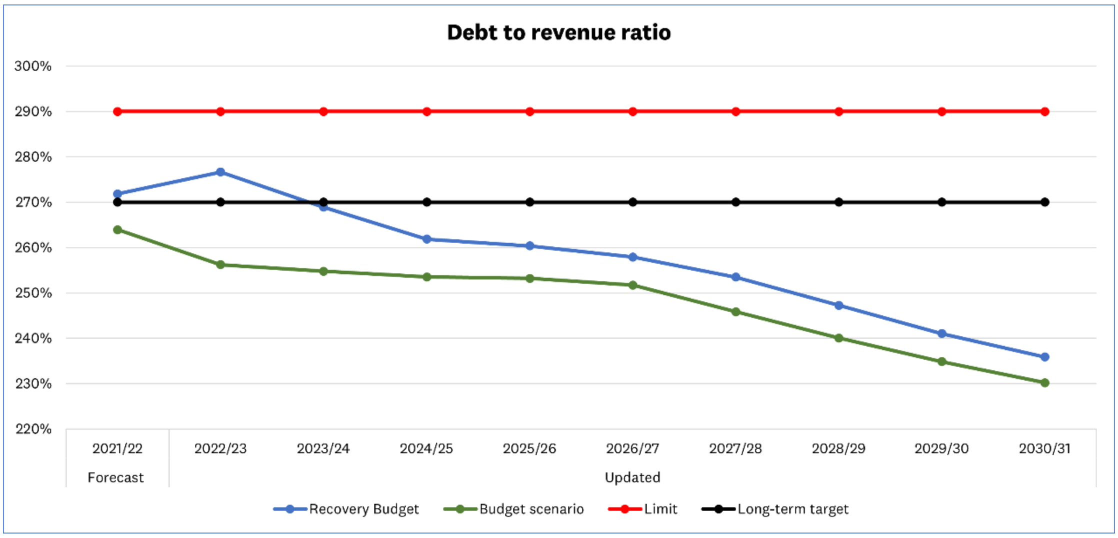
26. There remain further downside risks depending on the inflation and interest rate trends in the longer term. A more recent review of inflation and interest rate projections indicates that without any further budget mitigations the new Council could face an operating gap of between $90 million and $150 million depending on how the economic situation develops over the next couple of years.

27. These cost pressures have potential implications for our prudential financial limits and if left unattended, the timeline for fully funding depreciation would be delayed from 2027/2028 to 2030/2031. On the other hand, the debt to revenue ratio projection would not be materially affected.



28. As illustrated above, despite the growing operating cost pressures, there is sufficient operating surplus, coupled with the better off funding, to ensure Council can meet the minimum depreciation funding target (which increases at $25 million to $40 million annually) required by our financial strategy in the following two financial years. Based on the April 2022 budget projections, the gap is forecast to emerge from 2024/2025 and widen to $90 million in 2025/2026 before closing in 2031. Under a higher inflation and interest rate scenario, it could widen to $150 million over that timeframe.

29. Council's gross borrowing was around $10.7 billion as at 30 June 2021, which is 17.6 per cent of its total assets of $60.8 billion. Our level of borrowing in relation to our assets and our revenue is considered prudent. On debt to revenue ratios, the updated projection shows Council would be below the 270 per cent long-term target and well below the 290 per cent limit. This trend would not change materially under the higher inflation and interest rate scenario. There is headroom to accommodate any future shocks.



30. Like other organisations, Council has faced significant financial challenges since the pandemic began. However, because of prudent financial decision-making by elected members supported by professional and competent staff in operationalising those decision, we remain in a strong position to manage these challenges over coming years. Our financial strength is reflected in our credit rating of AA from Standard & Poor's and Aa2 from Moody's Investor Services, with a stable outlook for both.

The objective

31. The Local Government Act 2002 states the purpose of an annual plan is, among other things, to contain the proposed annual budget and funding impact statement for the year to which the annual plan relates. This is an annual budget for the 2022/2023 financial year, not a 10-year budget or an amendment to the current 10-year budget where the long-term strategies remain. However, it is appropriate that while the budget is about the 2022/23 financial year, we also set out a direction for the medium-term in response to the rapidly emerging cost pressures. While we can outline a range of options and the preferred pathway of this Council based on the best information at hand, we cannot and should not set budgets beyond 2022/2023 at this time, pre-empting decisions the incoming Council will make in future annual and 10-year budgets following the 2022 local body elections. The Audit and Risk Committee and its independent chair have advised that this is an appropriate approach to manage key financial risks associated with Annual Budget 2022/2023.

32. The key objective is to ensure we remain strongly committed to prudent financial management including balancing the budget and fully funding depreciation from operating revenue by 2027/2028. This means progressively closing the $90 million gap over the next several years using the multiple levers available to us. To put it in perspective, $90 million is around 1.8 per cent of the council group's $5 billion annual operating expenditure and 4.5 per cent of $2 billion core cost base excluding depreciation, interest, self-funded Council-owned organisations such as Watercare and Ports of Auckland and targeted rate-funded activities.

Proposed solution

33. The key levers included in the consultation budget were applying $85 million from the $127 million first tranche of the better off funding available to Auckland, maintaining the capital investment levels over the next three years, and implementing a $15 million cost reduction in 2023/2024 and a $30 million cost reduction per annum from 2024/2025 onwards. A large majority of the 7106 responses received on this topic during the consultation supported this approach.

34. It was acknowledged in the consultation document that should budget risks materialise, further operating cost reductions and capital deferrals may be required. Some of the budget risks have materialised (e.g. higher inflation and interest rates) and the cost pressures we are facing have increased considerably. This means we need to pull those levers further to achieve our objectives for this budget.

Better off funding

35. Instead of utilising $85 million better off funding next year, I propose Council apply the full $127 million in the first tranche available to Auckland from 1 July 2022. Together with the existing operating headroom, Council is able to manage the operating pressures in 2022/2023, without material changes to services. The $381 million second tranche of the better off funding for Auckland will become available from 1 July 2024 (2024/2025 financial year). The incoming Council can decide how to use this funding as part of the 10-year Budget 2024-2034.

Capital budget deferrals

36. Higher inflation and ongoing disruption to supply chains means costs for delivering capital projects will increase. Within a fixed funding envelope, fewer projects would be delivered within a set timeframe, resulting in a natural slowdown. The updated forecast assumed further delivery slowdown due to labour and material shortages in the supply market. Deferrals of capital projects lead to some reduction in associated operating expenditure such as depreciation, interest cost and in some cases running costs.

37. The limitation of this lever is that the resultant operating cost reduction is small relative to the amount of capital deferral required. Capital projects are important long-term investments a growing city needs to address historical underinvestment. Aggressive deferrals will increase asset and operational risks.

38. Based on the risk-based capital budget prioritisation for the group, I propose a capital deferral of $230 million over the next three years, conditional on all critical and high-risk projects as well as projects strongly supporting growth and climate action not being delayed. The deferral would contribute around $14 million in operating cost reduction. Even with this proposed deferral, the $2.85 billion average planned capital investment over the next three years is still $650 million more than the average actual delivery over the four years from 2017/2018 to 2020/2021.

Operating cost reduction

39. Since 2011/2012, Council has achieved total cumulative savings of over $2.4 billion, without which rates would have been 14 per cent higher. Many low-hanging fruit initiatives have been implemented, and, as a result, finding further savings has become more challenging. Over time, Council has also added new priorities. Delivering on these priorities will become unsustainable unless there is additional funding dedicated to them such as through targeted rates. Facing increasing operating cost pressures, we need to reduce low-priority spending while continuing to seek more efficient ways to deliver services. It is about both what we do and how we do it. Recent divestment of Amenities and Infrastructure Maintenance Services (AIMS) and ICT's innovative multi-cloud data centre platform are good examples. We avoided the need for $10 million to $15 million additional investment in vehicles and equipment for AIMS over three years just to keep it relevant in an established supplier market and we saved $12.8 million in IT cost from the multi-cloud system.

2022/2023 financial year

40. Using $127 million better off funding, existing operating headroom and short-term borrowing for temporary cost pressures such as the delay in restoring AIAL's dividend to Council, we do not have to consider significant service reductions or changes for this budget for the 2022/2023 year. However, we do now need to provide a direction to staff to start investigating which low-priority services should be reduced or stopped in accordance with the criteria we have consulted on and to prepare further advice. This is to ensure cost reductions can be implemented progressively from 2023/2024, subject to future decisions of the incoming Council and consultation with the public as appropriate.

41. There will be a continuing focus on efficiencies and reducing low-priority spend in 2022/2023. Auckland Council and our council-controlled organisations (CCOs) will need to work to achieve the operational spending reduction challenges that are already built into their budget. Work on the asset recycling programme and the broader Value for Money programme will also need to continue as planned.

2023/2024 and 2024/2025 financial years

42. For the 2023/2024 financial year, staff have advised that earmarking $30 million in permanent cost reductions would be appropriate and achievable without compromising key strategic priorities or impacting essential services. In order for the new Council to be in a position to make decisions in December this year on consulting with the community about these changes via its first annual budget of the new council term, staff will need to commence investigation of these opportunities now.

43. The indicative areas for further investigation are included in Appendix B. When exploring the options, Council needs to determine which services are no longer a priority and to ensure that it maintains services that align with priorities such as climate change and improving public transport services. To the extent that cost savings are not adopted by the new Council, it would need to consider other levers including general rates settings for 2023/2024.

44. From 2024/2025 onwards, the cost reductions would need to step up by around another $50 million to ensure Council remains on track to balance its budget including fully funding depreciation by 2027/2028. This would likely require a more fundamental review of what services Council delivers to its community, how it delivers these and how they are paid for. This will require significant strategic work with oversight from the Value for Money Committee and

would need to commence shortly to ensure the new Council is in a position to take advantage of this opportunity.

45. The 2024/2025 year will be the first year of the 10-year Budget 2024-2034. At that point the next Council will be in a position to consider its approach and direction of travel in the lead-up to the next 10-year budget and decide what it wants to consult with the community about.

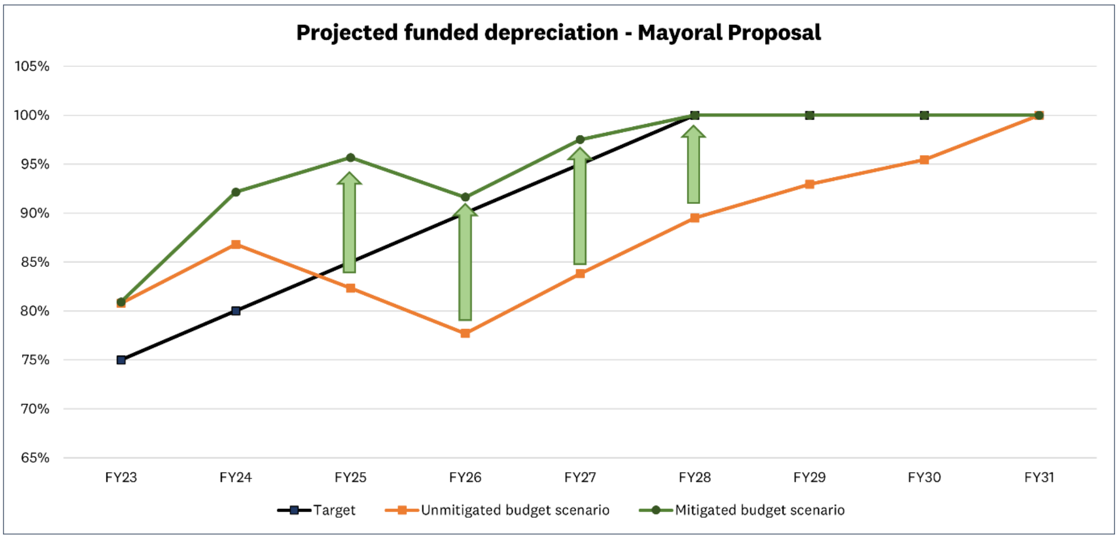
Future options and opportunities

46. The incoming Council has a range of options and opportunities available going forward and the development of the next 10-year budget will be the key decision point to consider these. These include further capital deferrals, a different mix of operating cost reductions, different rate settings and additional balance sheet options such as how to optimise financial returns from the Ports of Auckland. Further considerations include changes emerging from the current review of Future of Local Government which will likely advocate more devolution of funding from central to local government and changes to New Zealand's transport funding system to coincide with the introduction of congestion charging.

47. If the Three Waters Reform proceeds as the Government indicates it will, the second tranche of the better off funding in the order of $381 million allocated to Auckland will become available from 1 July 2024. Additionally, responsibility for some or all stormwater services and investment will transition from the council group to a new water services entity. This would result in a permanent reduction in costs of potentially around $200 million per annum for Auckland Council. That could result in a significant rates reduction from 2024/2025. As part of 10-year Budget 2024-2034, Council would need to reset its finances to cater for ongoing cost pressures but also a significant reduction in expenditure. Standard and Poor's have also signalled that the removal of Watercare from Council's books would likely result in their upgrading of Auckland Council's credit rating to AA+.

Conclusion

48. The proposed mitigations in the medium-term will help enable the new Council to balance its budget and fully fund depreciation from 2027/2028. However, it will be up to the Council at that point to make choices about how that is achieved.



49. In summary, Council's financial position is sound, but it faces a range of uncertainties and financial challenges. This budget responds to those challenges. I am mindful of the cost-of-living difficulties some ratepayers are facing in the current inflationary environment. I do not want to unnecessarily place an extra burden on them. The proposed general rates increase of 3.5 per cent plus increases in Waste, Water Quality and Natural Environment Targeted Rates, and the introduction of the Climate Action Targeted Rate will equate to a 5.6 per cent increase in rates for 2022/2023. This compares to 8.9 per cent for Wellington and 13.7 per cent for Tauranga, with other metropolitan centres sitting around 5-6 per cent. Council is in a strong position to respond to the challenges it faces and has options and opportunities to do so. Council will need, as it has in the past, to make prudent decisions.

Coastguard New Zealand

50. Coastguard Northern Region was one of the specified amenities under the Auckland Regional Amenities Funding Act 2008 (ARAFA). It received funding from the Auckland Regional Amenities Funding Board that levies Council annually. In 2019, Coastguard Northern Region agreed to a merger into Coastguard New Zealand, thereby was no longer eligible for funding through the amenities levy.

51. At that time, Council approved a separate two-year funding agreement with Coastguard New Zealand, at a funding level that Coastguard Northern Region would have otherwise received through the amenities levy. It was intended that long-term funding arrangement would be subject to considerations during 10-year Budget 2021-2031 or Coastguard New Zealand seeking legislative changes for inclusion in ARAFA again.

52. Coastguard provides primary maritime search and rescue service. This service is tangible and important to Auckland. Without council funding, critical services available to Aucklanders could reduce. Considering Council's financial challenges, I propose a grant of $750,000 to Coastguard New Zealand to maintain core services for 2022/2023, giving the incoming Council the opportunity to consider long-term funding prospects in the budgets that follow. This one-off funding is incorporated in the proposed budget package for next year.

Key points

53. To conclude, I make the following recommendations to the Finance and Performance Committee on the Annual Budget 2022/2023.

That the Finance and Performance Committee recommend the Governing Body:

a) agree to the Annual Budget 2022/2023, which is based on the updated consultation budget with $2.8 billion capital expenditure, $5.1 billion operating expenditure and a 3.5 per cent increase in average general rate as planned, and includes:

   i) a package of further climate action to reduce emissions and support adaptation, including:

      A) over $1 billion expenditure over 10 years towards improving bus services, decarbonising ferry services, providing for walking and cycling, and increasing tree canopy in communities which need it most.

      B) a Climate Action Targeted Rate (CATR) providing for $574 million over 10 years to fund climate action, with the remainder funded by $128 million in fare revenue from additional services and $354 million in government co-funding.

C) applying consistent principles for the CATR programme to determine further climate action if additional government funding becomes available from the Climate Emergency Response Fund.

D) the targeted rate is

i. based on capital value with 25.8 per cent to be raised from business properties and 74.2 per cent from non-business, rising by 3.5 per cent each year, the same as the Water Quality Targeted Rate.

ii. is differentiated within the business and non-business sectors on the same basis as the general rate.

E) a political governance and oversight group for the CATR be established for the duration of the fund to provide direction in line with the purpose and principles of the targeted rate and to monitor and report on progress.

F) note that Council has approved in principle a congestion charging system which is being considered for legislation by the Government, and that the Regional Fuel Tax and Climate Action Targeted Rate will be reviewed with a view to phasing out the Regional Fuel Tax as revenue becomes available from the congestion charge.

ii) a grant of $750,000 to Coastguard New Zealand in the 2022/2023 financial year.

b) agree to the following approach to addressing growing operating cost pressures caused by COVID-19 and economic conditions such as high inflation and interest rates, to ensure Auckland Council continues to act in a financially prudent way, including fully funding depreciation by 2027/2028.

i) note that Auckland Council and council-controlled organisations will continue to work to achieve savings and asset recycling targets included in existing budgets and that Value for Money programme and reviews will continue to be progressed under the oversight of the Value for Money Committee.

ii) agree to apply $127 million better off funding from the Government in 2022/2023.

iii) agree to defer $230 million of capital expenditure over the next three years (2022/2023 – 2024/2025) while ensuring critical and high-risk projects as well as projects strongly supporting growth and climate action are maintained.

iv) agree to approve the use and ongoing improvement of the prioritisation framework consulted on and the general approach to service prioritisation.

v) agree that staff begin investigating service optimisation opportunities of around $30 million for consideration by the new Council as part of the Annual Budget 2023/2024.

vi) agree that staff begin considering further cost reductions from service prioritisation of around $50 million for decision-making by the new Council as part of the 10-year Budget 2024-2034.

vii) agree that staff report to the Value for Money Committee on scoping the strategic opportunities for cost reductions.

viii) note the options available to the new Council to respond to future operating cost pressures include varying degrees of capital deferrals, operating cost reductions and higher rates settings.

ix) note further opportunities associated with Three Waters Reform and optimising financial return from Ports of Auckland.

x) note that final budget decisions beyond 2022/2023 rest with the new Council in consultation with the public as appropriate.

Appendix A. Climate Action Targeted Rate (CATR) Report

1.0 Overview

Purpose of the climate action targeted rate

To increase funding for climate action to reduce emissions, lay the foundation to enable further reductions in the future, and prepare for the impacts of climate change, with an immediate focus on enhancing low carbon transport options and greening our neighbourhoods.

About the climate action targeted rate

In June 2019, Auckland Council unanimously declared a Climate Emergency, recognising our region's role in limiting global temperature rise to 1.5 degrees Celsius. In response to this declaration, two core goals were established for our region through Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan to:

- halve regional emissions by 2030 and reach net zero emissions by 2050
- take a precautionary approach to planning for the impacts of climate change.

These goals cannot be achieved by any one individual or organisation. They require bold and ambitious action by individuals, communities, businesses, mana whenua and government, as well as the council.

We are already contributing to climate action but we know we need to do more, particularly in the transport sector given that 43.4 per cent of Auckland's regional emissions are from transport. Building on the climate investments the council has already made in the 10-year Budget 2021-2031 and the 2021-2031 Regional Land Transport Plan, we are proposing additional investment to be funded by a targeted rate of $574 million over the next 10 years[1]. This equates to $1.12 per week for median value ($1.2 million) residential property in 2022/2023 final year. The $574 million targeted rate funding over the period 2022 to 2032 will be used to leverage a total of $1.056 billion investment in climate action as the proposed transport investment would unlock Government co-funding and fare revenue.

The targeted rate would fund additional investment in buses, ferries, walking and cycling. The package's focus on transport has been chosen as this is the area where the council can have the most impact on regional emissions while generating wide regional benefits and addressing existing inequity in the provision of services. Furthermore, the transport investments are necessary building blocks of the transport system transformation that is required to meet our emissions reduction targets. Central government's direction and expected policy changes from next year should complement the proposal and amplify the benefits.

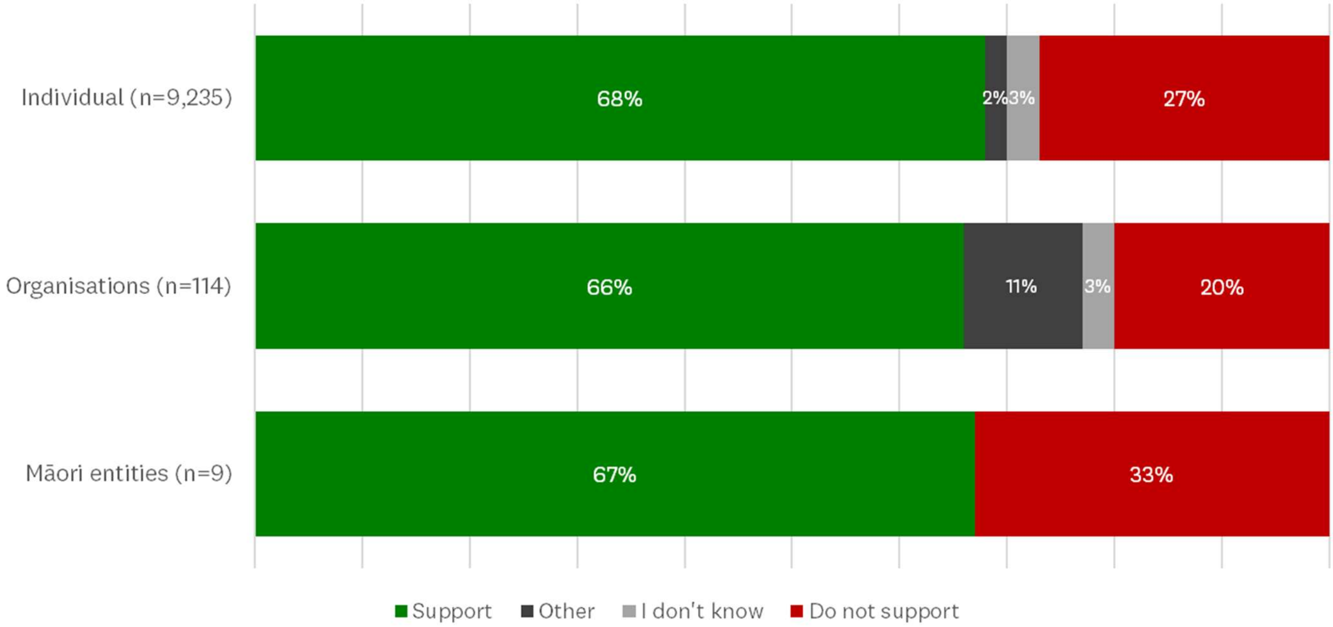
The climate action package also includes measures to adapt to the impacts of climate change with the funding of 14,800 native trees planted in areas with the most heat vulnerability and lowest canopy cover. Further funding will be provided for over 4,000 trees and plants for tiny forests, food forests, māra kai (food gardens) and bush remnants, as well as grants for rongoā planting (plants for traditional healing purposes).

Results from public submissions

There were 9,363 responses on the proposed Climate Action Targeted Rate in the public submissions where we received two-third majority support from individuals, organisations and Māori entities as summarised below:

[1] The targeted rate will also cover interest cost of around $11 million that arises when borrowing is required to fund lumpier capital expenditure in the initial years. This is included in the targeted rate calculations throughout this report and in the consultation materials.

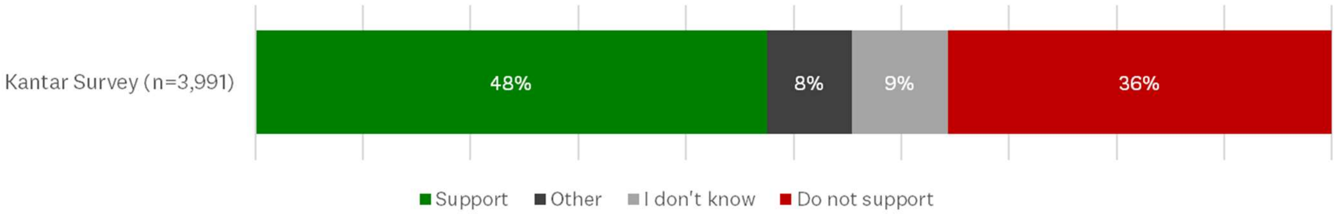
Figure 1 Public submissions summary (Region)



Results from Independent Kantar Public Survey

There were 3,991 responses from the Kantar Public Survey where we received 48 per cent support from respondents. This represents a clear margin over those who do not support (36 per cent) by 12 per cent as summarised below:

Figure 2 Kantar Survey summary (Region)



Final recommendations

There was a clear margin of support from both public consultation and the Kantar Public Survey on the proposed Climate Acton Targeted Rate. Of those who provided further explanation, the majority of feedback was thematic with a very small amount (160 pieces of feedback) specific to the package itself. There were no strong themes emerging to inform tangible changes to the proposed package so therefore it the proposal remains largely the same as outlined in the Consultation Document, except the reallocation of $14 million to support improved bus services in the Rodney Local Board area (in line with the Rodney Transport Targeted Rate).

2.0 Climate Action Targeted Rate feedback analysis

The following was included in the Annual Budget 2022/2023 Consultation Document which provided an outline of the proposal:

To meet our climate ambitions, we must reduce transport emissions in Auckland by 64 per cent by 2030. To address the climate emergency and contribute to this climate goal, we are proposing spending an additional $1.045 billion (including government funding and other sources) over the next 10 years on a series of targeted actions to reduce emissions and support adaptation. This includes:

- Improving transport choice for over one million Aucklanders who will be living within 500 meters of new or improved bus services
- Moving to low-emission ferry services
- Increasing provision for walking and cycling, and
- Increasing tree canopy cover in communities that need it most.

We propose introducing a Climate Action Targeted Rate (separate from general rates) to pay for $574 million of this over the next 10 years. We estimate the targeted rate to be about $1.12 a week (about $58 a year) for the median value residential property.

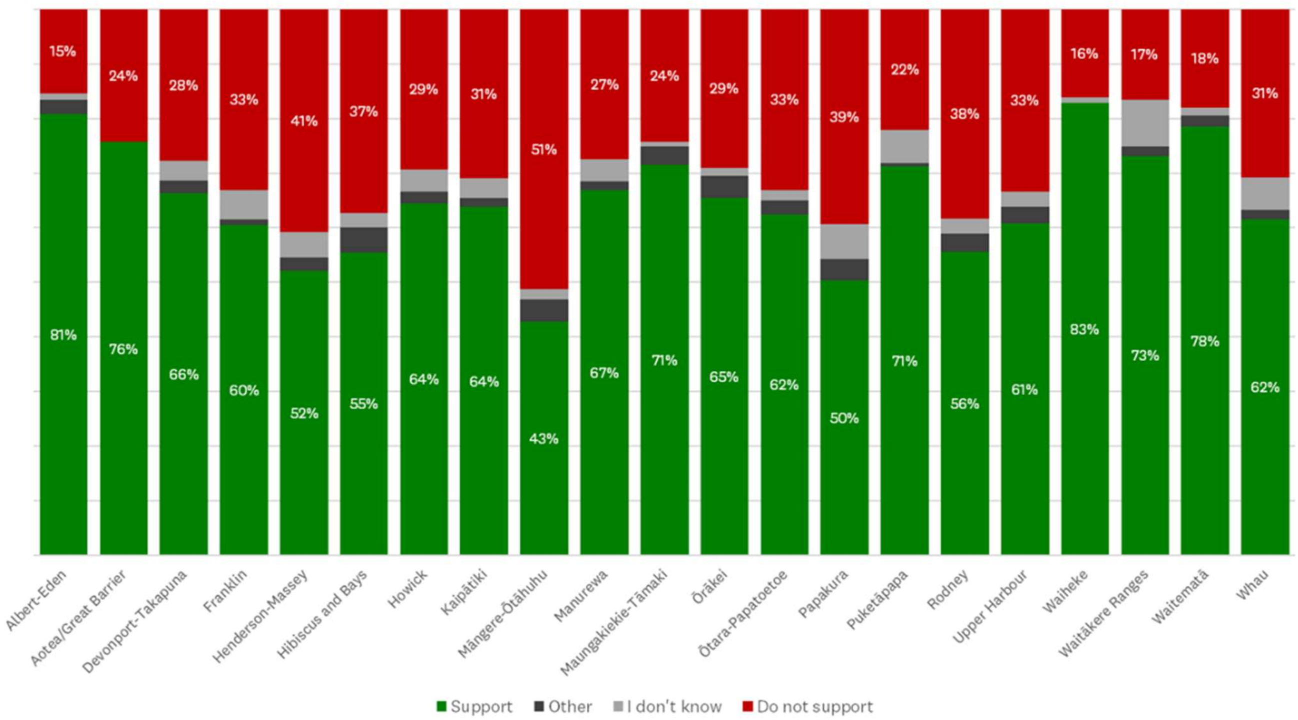
Section 1 of the Supporting Information provided additional details to assist respondents to understand the issue and provide feedback on the proposed Climate Action Targeted Rate. In conjunction, an independent Kantar Public Survey was conducted during the consultation period where survey participants were asked for their views specifically on the proposed Climate Action Targeted Rate.

2.1 Public submissions

We received 9,235 pieces of feedback from individuals, 119 pieces of feedback from organisations and nine pieces of feedback from Māori entities. Detailed analysis on individual, organisations and mana whenua/mataawaka feedback are provided in the Annual Budget 2022/2023 Summary of Feedback Report. Responses by age, ethnicity, local board areas (individuals) and feedback themes (individuals and organisations) are depicted here.

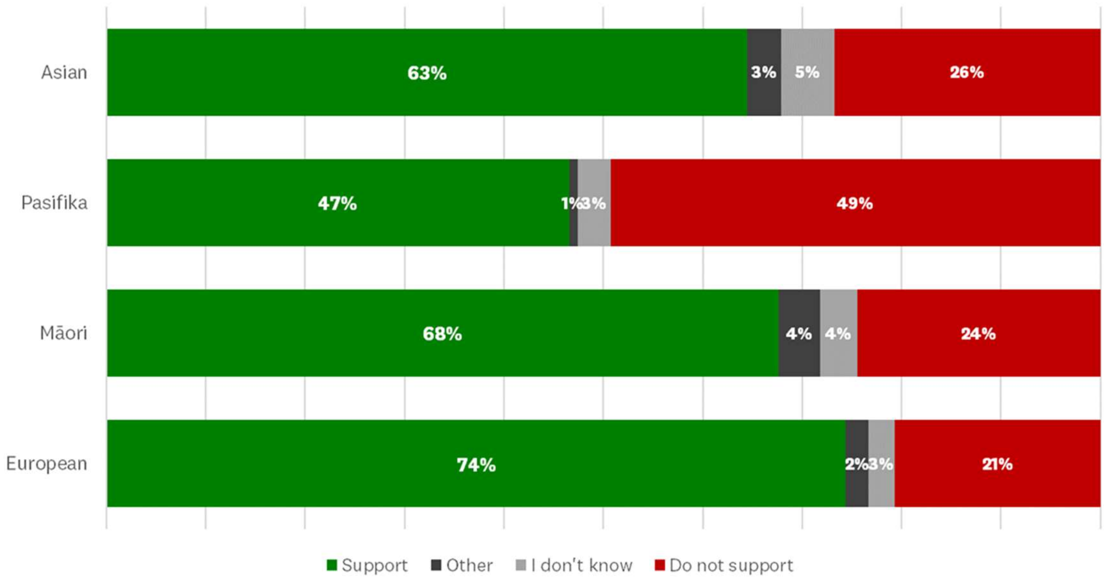
By local board areas – More support than do not support for 20 out of 21 local board areas

Figure 3 Public submissions (individuals) by Local Board areas



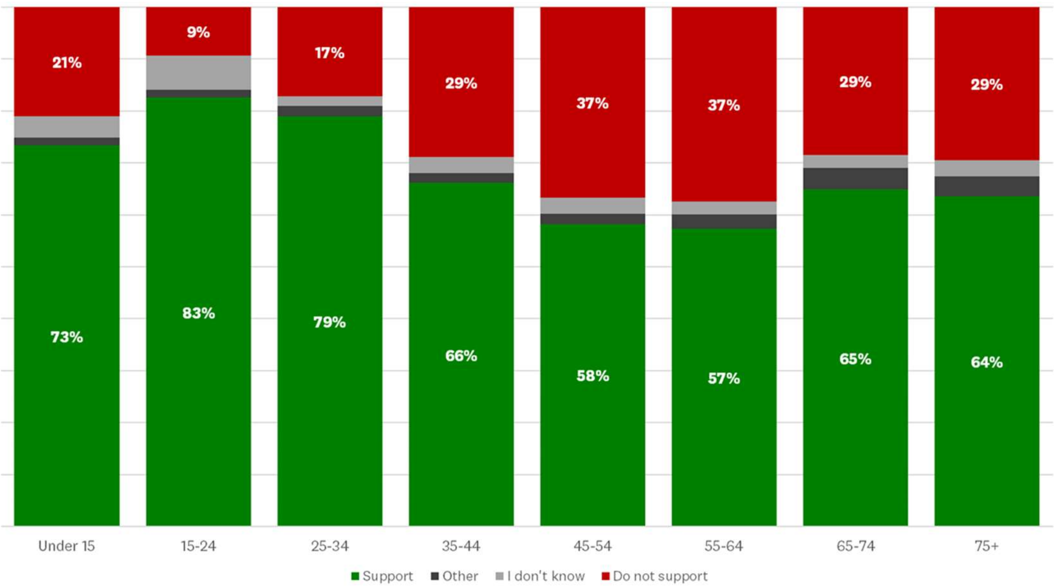
By ethnicity – More support than do not support across all key ethnic groups except Pasifika

Figure 4 Public submissions (individuals) by ethnicity



By age – More support than do not support across all age groups

Figure 5 Public submissions (individuals) by age

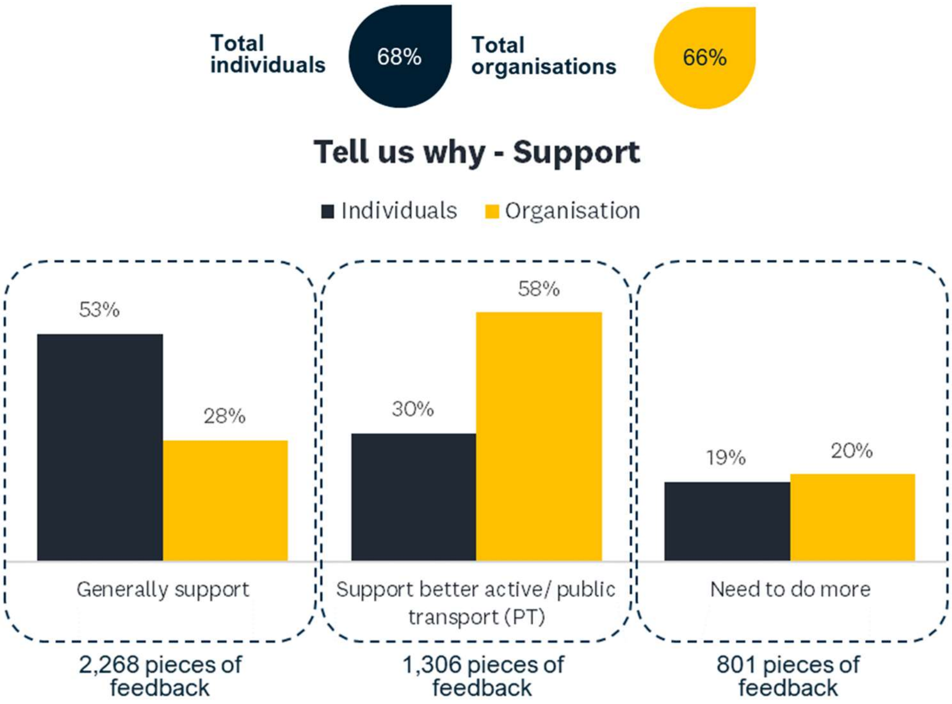


By feedback themes

Many submitters (nearly a third) did not provide a comment but for those who did provide a comment with their response, the top three themes for support, do not support, other and I don't know are summarised below.

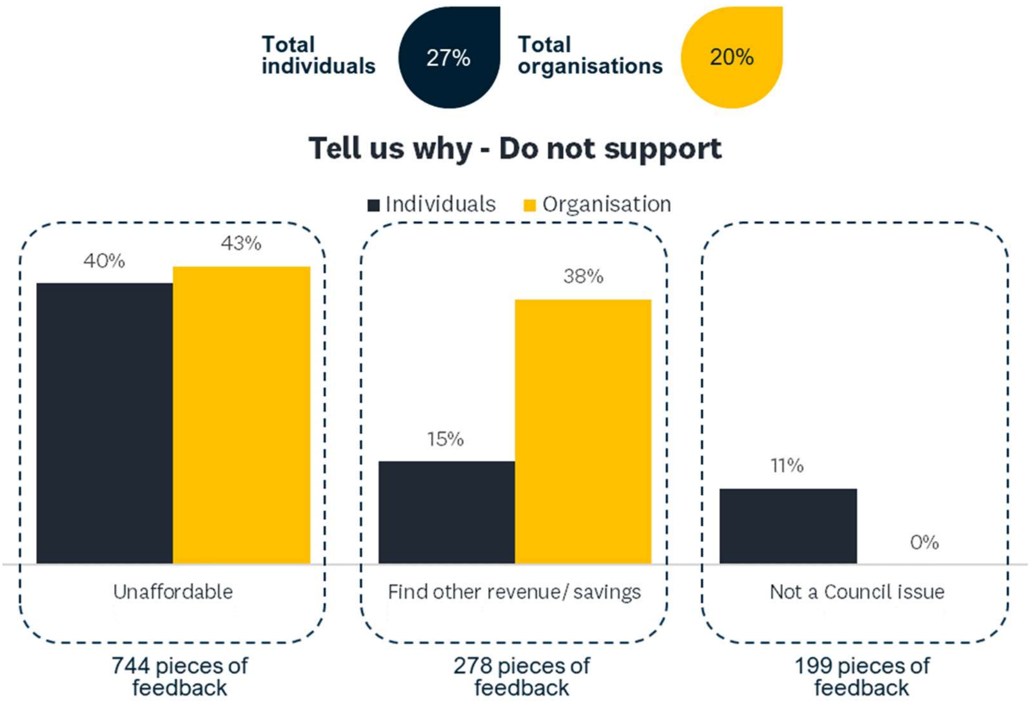
Of those individuals (4,256 pieces of feedback) and organisations (64 pieces of feedback) that support the proposed targeted rate, the following are their top three reasons:

Figure 6 Top 3 reasons for support (Individuals + Organisations)



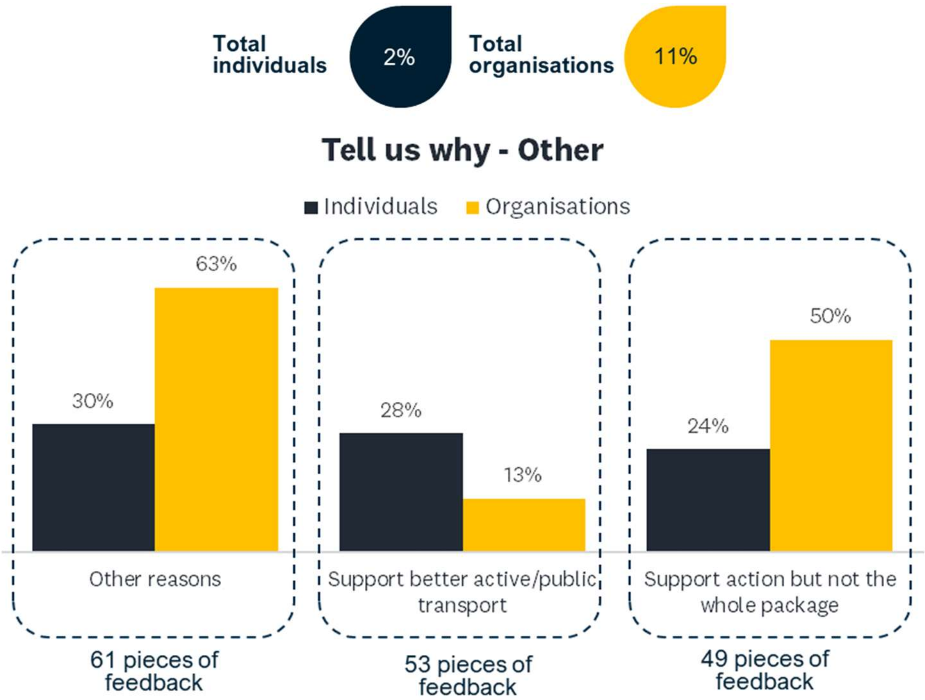
Of those individuals (1,817 pieces of feedback) and organisations (21 pieces of feedback) that do not support the proposed targeted rate, the following are their top three reasons:

Figure 7 Top 3 reasons for do not support (Individuals + Organisations)



Of those individuals (186 pieces of feedback) and organisations (8 pieces of feedback) that stated other in their submissions, the following are their top three reasons:

Figure 8 Top 3 reasons for other (Individuals + Organisations)



Feedback specific to the proposed package

160 pieces of feedback that align to "Support action but not the whole package" were further analysed to identify any specific changes that could be made to the proposed package. The most common feedback themes and assessment on how this could be addressed are summarised below.

Table 1 Feedback themes on the proposed package

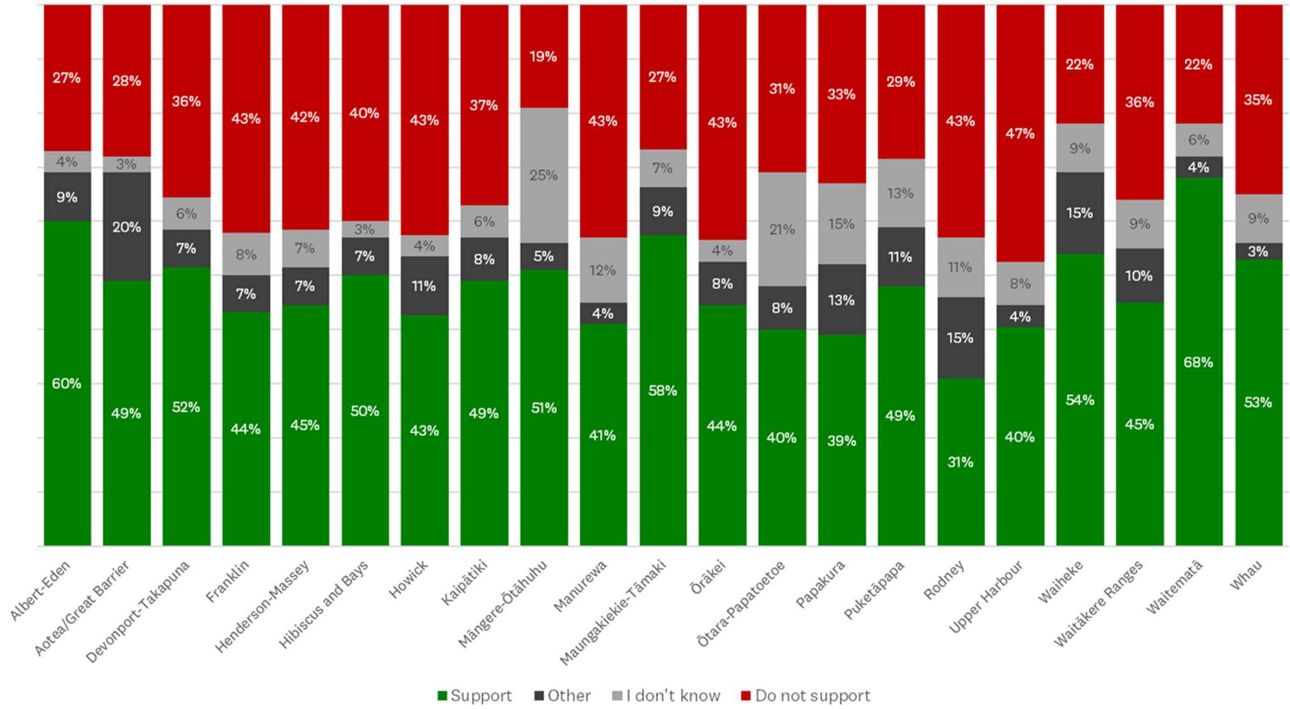
Element of the package	Most common feedback themes	Responses
Public Transport	Should do more to increase the uptake of public transport	• Behavioural change programme to drive better uptake is already part of the package
Active Transport	Should do more to increase the uptake of active transport	• Behavioural change programme to drive better uptake is already part of the package
Urban Ngahere	Should be doing more to protect existing trees	• • Council recently announced it is commencing assessment of 610 tree nominations for inclusion in the Notable Tree Schedule, with work underway to prepare a plan change for notification in 2023 to add trees that meet notable tree criteria to Schedule 10 of the Auckland Unitary Plan • Council continues to advocate to central government to include better tree protections in its new resource management system. This follows the 2015 change to the Resource Management Act which prohibited blanket tree protections
Rating mechanism	The way that different categories of ratepayers will be charged differently is unfair	• Rate set on same basis as general rate because: ○ similar activities currently funded through general rates ○ no practical basis for differentiating ratepayers based on greenhouse gas emissions • Business differential set to reflect tax benefits for businesses and not based on sector emissions • Refer to Attachment 1 for a full explanation about differentials

2.2 Kantar Public Survey

3,991 Aucklanders participated in the Kantar Public Survey and the full analysis is provided in the Annual Budget 2022/2023 Summary of Feedback Report .

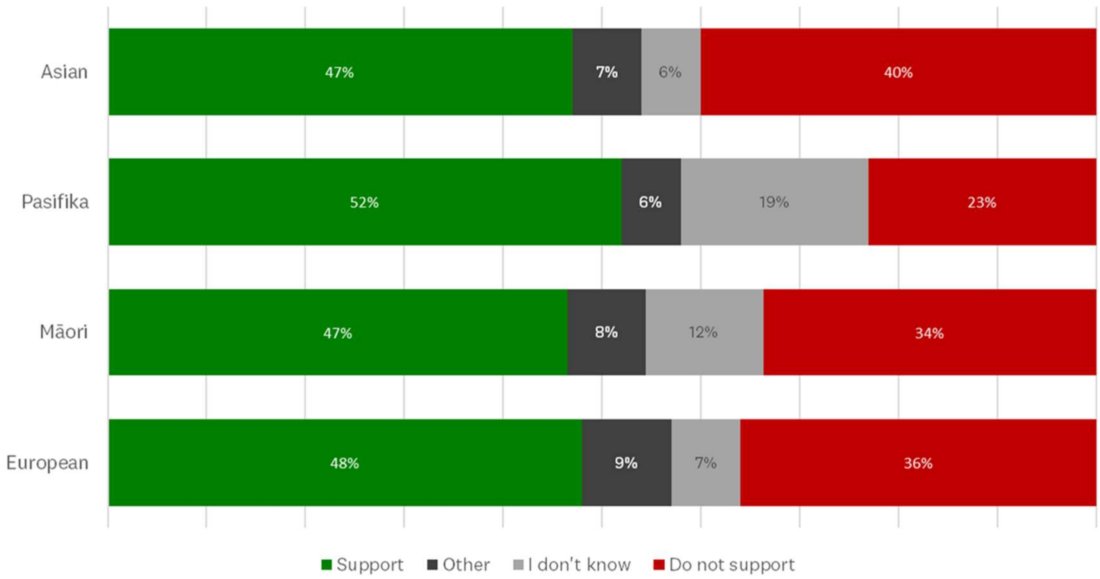
By Local Board areas – More support than do not support for 17 out of 21 local board areas

Figure 9 Kantar Public Survey (individuals) by Local Board areas



By ethnicity – More support than do not support across all key ethnic groups

Figure 10 Kantar Public Survey (individuals) by ethnicity



3.0 Recommended package for Climate Action Targeted Rate

There was a clear margin of support versus do not support from both public consultation and the Kantar Public Survey. Of those who provided further explanation, the majority of feedback was thematic, but there were no themes strong or specific enough to make tangible changes to the proposed package. Therefore, there is no substantive change (except the reallocation of $14 million from cycling to bus services) and the proposed package for the Climate Action Targeted Rate remains largely the same as outlined in the Consultation Document and Section 1 Climate Action of the Supporting Information. The list of indicative projects provides an idea of the sort of initiatives that would be funded through this targeted rate.

Package overview

The climate package will require funding of $574 million over the next 10 years, funded through a targeted rate. A cost summary and the CAPEX/OPEX requirements are provided below. $14 million which was initially allocated to the cycling portion of the package is now recommended to be reallocated to the bus portion of the proposed package.

Table 2 Cost summary

Climate Action Package	10-year total	Revised 10-year total
Bus	$627 million	$652 million
Ferry	$122 million	$122 million
Cycling	$144 million	$130 million
Walking	$84 million	$84 million
Urban Ngahere	$13.3 million	$13.3 million
Resourcing (Auckland Council)	$9 million	$9 million
Administration Costs (Auckland Transport)	$7 million	$7 million
Depreciation	$39 million	$39 million
Gross Total	$1,045 million	$1,056 million
Projected Additional Fare Revenue	$127 million	$128 million
Net Total	$918 million	$928 million
Co-funding from Central Government	$344 million	$354 million
Funding required from the targeted rate	$574 million	$574 million

Bus improvements - No change except additional bus improvement initiatives will be added to the Rodney Local Board area

$14 million of funding for cycling network was introduced to the package at the 24 November 2021 Finance and Performance Committee workshop. Feedback from the Rodney Local Board (Resolution number RD/2021/166) was that improved bus services in Rodney were of greater priority and in line with the Rodney Transport Targeted Rate. Therefore the $14 million is reallocated to improved bus services in Rodney.

Ferry decarbonisation – No change

This will be in addition to the two new electric ferries announced in April 2022 where government will fund approximately 75 per cent of the construction costs.

Cycling improvements - No change except $14 million will be reallocated to bus improvements

Further details will be developed through the Auckland Transport Cycling and Micro-mobility Business Case.

Walking improvements – No change

Further details will be developed through the Auckland Transport Walking Business Case.

Urban Ngahere (Forest) – No change

Further details will be developed by council's Urban Ngahere Team, focusing on areas with the highest heat risks and lowest levels of canopy cover.

Rating mechanism – No change

Targeted rate to be set on capital value with the rate increasing in line with the planned general rates increase of 3.5 per cent per year. It is proposed to differentiate the rate with the same structure as the differentials that apply to the value based general rate. The business differential for the Climate Action Targeted Rate is proposed to be set to recover 25.8 per cent of the revenue requirement from business. This is the ultimate target for our gradual reduction in the share of rates to be raised from business properties and the same level as the Water Quality and Natural Environment targeted rates. At this level the rates for business properties in 2022/2023 will be roughly equivalent to their tax advantage from being able to claim back GST and expense rates.

Attachment 1. Feedback on rates differentials

Feedback was received from key stakeholders in the business and rural sectors regarding the level of differentials proposed to be applied to the Climate Action Targeted Rate.

The Business Association Collective, along with five related submissions from the Ellerslie, North Harbour, Parnell, Rosebank, and Newmarket business associations, opposed the proposed Climate Action Targeted Rate business differential of 25.8 per cent. They disagreed that there was always a relationship between high property values and higher generation of greenhouse emissions. They also asked that a rates remission be available to businesses that take climate action, to incentivise this behaviour.

Federated Farmers submitted that the rural differential applied to the Climate Action Targeted Rate should be lower than the 80 per cent of urban residential rate that was proposed. Their submission noted that farmers are facing significant additional costs under the government's He Waka Eka Noa/ (Primary Sector Climate Action) proposals. They also considered that the climate activities provided limited benefit to the rural community and requested council fund plants for farmers undertaking planting of native vegetation.

The business associations and Federated Farmers all supported funding through a higher fixed charge. Such an approach would decrease the rate share for the sectors represented by the submitters, while increasing rates for the residential sector, and for lower value properties generally.

The level of rates differential for the Climate Action Targeted Rate was considered in the Supporting Information for the Consultation Document for the Annual Budget 2022/2023 (see Section 1 Climate Action, Appendix E. Funding option discussion.) This advice considered the:

- the drivers for the need for the activity (in this case the emissions of greenhouse gases
- beneficiaries of the investment
- affordability of the rate.

This consideration informed whether the rate should be set on a property value or fixed basis, and whether differentials should be applied.

This analysis concluded that:

- the regional benefits of the investment supported applying the rate generally to all ratepayers, but the focus of investment in urban areas supported a lower rural differential
- while the agriculture and industrial sectors generated higher emissions relative to the share of rates they paid, there is insufficient information available to support the use of rates differentials to reflect differences in emissions, either by land use or by rating sector
- there is some relationship between property values and both the generation of greenhouse emissions and the affordability of rates that supports setting the rate on a property value rather than fixed value basis. This relationship between property values and greenhouse gas emissions and affordability tended to be stronger in the business sector.

From this analysis, and having considered the feedback received, staff still consider it appropriate to set the proposed Climate Action Targeted Rate on a capital (total property) value basis. Staff also still consider that the proposed rural and business differentials for the Climate Action Targeted Rate appropriately balance the drivers of the activity, the beneficiaries of the investment, and affordability.

Appendix B: Budget update and funding options

Executive summary

1. The financial year 2022/2023 is the second year of our Recovery Budget and the Annual Budget 2022/2023 seeks to update the projections included in that 10-year plan to allow for updated information and assumptions.
2. The Recovery Budget acknowledged the high levels of uncertainty around many of the key forecasting assumptions made such as COVID-19 related disruption, inflation and growth projections, and government transport funding.
3. While these high levels of uncertainty remain, it is now clear that the revenue disruption from COVID-19 will be larger and longer-lasting than previously projected and that changes to economic factors such as inflation and interest rates have created a step change in our operating cost that is both material and ongoing. In short, there has been a structural increase in the net cost of delivering council services.
4. Work to contain and shrink the operating budget gap, including the application of expected Government better off funding and some use of operating and borrowing headroom in the short term is sufficient to mitigate the budget gap for 2022/2023. There remains, however, an ongoing operating budget gap to close of $90-$150 million per annum.
5. It is crucial that the council presents a credible plan to address this ongoing budget gap to maintain the confidence of our key stakeholders including investors, credit rating agencies, government partners and Aucklanders.
6. The availability of the better off funding will provide the new council with the time to work through a number of available levers to address this in an enduring way, but all will involve trade-offs and consequences. These levers include:
    - Balance sheet opportunities (including the disposal of assets)
    - Rates increases
    - Long-term capital deferrals
    - Operating cost reductions
7. One potential scenario to mitigate a gap of $90 million would be a blend of capital deferrals and operating cost reductions at the below levels:
    - Capital deferrals of $250 million out of the next three years and into the last three years of the 10-year budget.
    - Tactical service level opportunities, delivering $30 million of ongoing operating expenditure reduction, from 2023/2024
    - Strategic service level review, delivering around $50 million of ongoing operating expenditure reduction, from the first year of the next 10-year budget (2024/2025).

8. Alternatively, the new council may choose to implement higher rates increases rather than proceed with the cost reduction options.
9. If the higher inflation and interest rate scenario plays out then a combination of higher rates and service reductions may be required to close a $150 million gap.
10. Looking ahead to the next 10-year budget, there may be other opportunities to address the ongoing operating gap once there is greater certainty around things such as water reform, the review of the future of local government and options for improving value from the council's investment in Ports of Auckland. On the other hand, there are also many financial risks that could eventuate including even higher inflation and interest rates, cost increases for major capital projects like the City Rail Link and the need for further urgent expenditure to address climate change.
11. While some decisions need to be made for the Annual Budget 2022/2023, including initial stages of capital deferrals and direction to staff to commence work on potential service level changes, many of the key decisions will need to be made by the next council. What is important is that steps are taken now to ensure the new council is well set up to be able to make the choices it needs to make in order to sustainably and prudently manage its finances.

Context

Our Recovery Budget

12. In June 2021, Auckland Council adopted its 10-year Budget 2021-2031, the Recovery Budget.
13. This plan sought to address the then-projected impacts of COVID-19 (including the loss of $750 million of revenue over four years) while also committing to a record $32 billion capital investment programme over ten years. This programme focused on addressing traffic congestion and road safety, supporting growth and housing, protecting our environment, and improving water quality, and starting to respond to climate change.
14. The Recovery Budget acknowledged the high levels of uncertainty around many of the key forecasting assumptions made such as COVID-19 related disruption, inflation and growth projections, and government transport funding.

Prudent financial management

15. The council maintained its commitment to prudent and sustainable financial management through the Recovery Budget.
16. Projected debt levels were below our limits and trending down over time. This sought to ensure the council had spare borrowing headroom to deal with future shocks.
17. In the Recovery Budget the council committed to fully funding depreciation expense from operating revenue sources by 2028. This means that on average we are not relying on borrowing to fund asset replacement expenditure over the long run. This represents a sustainable approach, as it ensures that operating expenditure is covered by operating revenues and borrowing is only used to finance investment that will deliver enduring benefits.

Credit ratings

18. Reviews by credit rating agencies following the adoption of the Recovery Budget resulted in the council maintaining its strong credit rating.

19. Auckland Council had its AA rating confirmed by S&P Global on 4 October 2021, and its Aa2 rating confirmed by Moody's on 12 April 2022.

20. These strong ratings support the council's access to credit markets to fund our investments and to be able to do so at cost effective rates. If our credit rating were to be reduced this would mean higher interest costs and potential limitation or restrictions on our how we raise and use debt.

Annual Budget 2022/2023

21. The financial year 2022/2023 is the second year of our Recovery Budget and the Annual Budget 2022/2023 seeks to update the projections included in that 10-year plan to allow for updated information and assumptions.

22. Auckland Council agreed a draft budget approach for consultation on 8 December 2021. This decision included acknowledging additional budget pressures, the risks and uncertainty around them, and proposing a package of mitigation for inclusion in the annual budget consultation.

23. Full details of the cost pressures, drivers and advice provided can be found in report CP2021/18756 presented to the Finance and Performance Committee on 8 December 2021.

Budget update

24. The budget update work undertaken in September to November 2021 included finance staff both reviewing key forecasting assumptions and engaging with departments and council-controlled organisations (CCOs) across the group to ascertain the impacts of these and any other relevant new information.

25. Given the required need to focus on long-term financial sustainability, budget updates looked at all years of the 10-year budget. This ensured that all impacts were considered, including how the 2021 lockdown would impact the opening position for 2022/2023 and also how updates would flow through to our tests of prudent budgeting such as full funding of depreciation by 2028 and our long-term debt position.

Drivers

26. Two key factors were driving a material budgetary challenge for the council group for the 2022/2023 year and beyond.

27. Firstly, it become clear that COVID-19 related impacts on the council's revenue sources would persist for longer than previously projected. Some of these such as the impacts on dividends would primarily affect the 2022/2023 year. Other impacts such as the slower expected recovery of public transport patronage would likely persist for much longer.

28. Secondly, recent increases in interest and inflation rates meant that operating costs across the group have systematically increased and are materially higher from 2022/2023 onwards. This included higher wage pressure, which was unavoidable due to both a contractual commitment with unions and the need to attract and retain the necessary staff to deliver services to

Aucklanders. It was seen as almost certain that these pressures represented a permanent, structural increase in the council's cost base.

29. Overall, there was an estimated operating budget impact of around $85 million in 2022/2023 needing to be managed, with around $65 million of this enduring in future years.

Risk and uncertainty

30. It was noted at the time that while these are only estimates and the financial outlook remained highly uncertain, staff considered that most of this budget impact was unavoidable and that the risks were all skewed toward more adverse financial outcomes. These estimates represented our most optimistic view of the financial trends and did not yet account for:

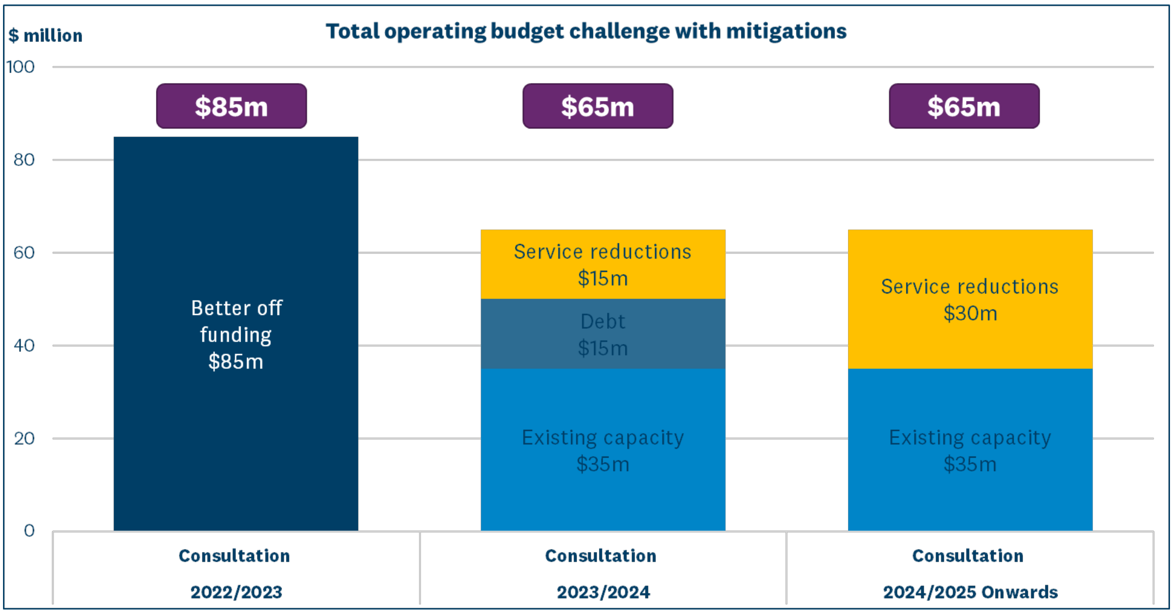
    - further government restrictions that may be required to protect the health system despite high vaccination levels
    - widespread public reluctance to gather due to lingering health concerns
    - further increases in interest rates over and above the current market expectations
    - inflation rates that persist above the midpoint of the Reserve Bank target band
    - further wage pressure due to the need to compete with other organisations for talent
    - significant increases in interest and depreciation costs associated with cost increases for major construction projects
    - increased operating, maintenance and depreciation costs from higher levels of vested assets from both public and private sector developers
    - potential caps to Waka Kotahi operating subsidies over the next three years
    - similar COVID, interest and inflation pressures flowing through to supported organisations e.g., Auckland Regional Amenities Funding Act amenities (ARAFA), MOTAT, Auckland War Memorial Museum
    - funding for planned visitor attraction and major events activities that were planned to be funded by the Accommodation Provider Targeted Rate
    - costs to implement further government policy changes
    - unfavourable changes to tax legislation.

Proposed mitigations for consultation

31. Advice on a number of mitigation levers was provided and a set of proposed mitigating actions was agreed for consultation with Aucklanders.

32. To address the anticipated $85 million operating funding gap in the 2022/2023 year, the council agreed to propose the use of a portion the first tranche of the Three Waters Reform Programme "Better Off" funding which is expected to see $127 million of funding being made to Auckland Council from as early as 1 July 2022.

33. The proposal to address the ongoing $65 million funding gap in future years (subject to future decision-making) included the use of existing operating funding capacity ($35 million), some additional borrowing in 2023/2024 ($15 million), and a programme of permanent operating cost reductions in the form of efficiency saving and low priority service reductions across the Auckland Council group ($15 million in 2023/2024 growing to $30 million from 2024/2025 onwards).



34. To support the operating cost reduction programme, the council agreed on a set of draft expenditure prioritisation criteria to also be included in the Consultation Document.

35. The consultation material acknowledged the high levels of uncertainty and the risk that the budget pressures could be materially higher by the time the annual budget was finalised. It was indicated that operating cost reduction targets and existing asset sale targets may need to be reviewed if more budget pressures eventuate. It was also noted that deferring capital projects can result in operating cost reductions and that some project deferrals may be needed simply to offset the impact of rising construction costs.

Public feedback and local board input

Feedback on budget package

36. The consultation question in the feedback form for the Annual Budget 2022/2023 asked Aucklanders if they supported the proposed investment package and the associated funding levers.

37. Overall, 7,106 responses to this question were received. Of these, 99 responses had been prepared by a community group, Māori entity or other external organisation. Looking at all the responses, 54 per cent supported and 21 per cent did not support the proposal.

38. The most common themes from those who supported the proposal included:

- generally supporting investment and the funding levers in the proposal
- finding revenue sources and savings from elsewhere e.g. internal savings
- the council should only invest in core or essential services.

39. Key reasons provided for not supporting the proposal related to:

- financial hardship that many are facing due to COVID-19 and rising inflation
- finding revenue sources and savings from elsewhere e.g. internal savings
- a lack of trust or generally dissatisfied with council.

40. For those who selected 'Other' and 'Don't know', the main themes included:
    - finding revenue sources and savings from elsewhere e.g. internal savings
    - opposing sale of council assets.
41. Further analysis of the public feedback is included in an attachment to the Overview to decision-making report on this agenda.

Feedback on prioritisation framework

42. The consultation question in the feedback form also asked Aucklanders if they supported the proposed set of criteria to be used when the council is making decisions about cost reductions, including those that could reduce, stop or change some services.
43. Overall, 6,656 responses to this question were received. Of these, 96 responses had been prepared by a community group, Māori entity or other external organisation. Looking at all the responses, 54 per cent supported and 14 per cent did not support the proposal.
44. The most common themes from those who supported the proposal included:
    - generally supporting the prioritisation framework e.g. it seems pragmatic
    - the council should prioritise or keep certain services, most notably climate change initiatives and transport improvements
    - the council should only invest in core or essential services.
45. Key reasons provided for not supporting the proposal related to:
    - finding other revenue sources and savings to deal with budget deficits
    - a lack of trust or generally dissatisfied with council
    - generally opposing the proposal (e.g. do not cut any services or a lack of confidence in our prioritisation).
46. For those who selected 'Other' and 'Don't know', the main themes included:
    - the council should prioritise or keep certain services, most notably climate change initiatives and transport improvements
    - finding other revenue sources and savings to deal with budget deficits.

Requests for funding

47. Three requests for additional funding were received from external entities through the consultation process.
48. The entities that have requested funding are:
    - COMET
    - Coastguard New Zealand
    - Eden Park Trust.
49. Given the current budget situation accommodating any of these funding requests would add to the funding challenge for the council and require additional budget mitigation.
50. Further detail of the requests and context is included in Appendix B1.

Local board input

51. Local boards have considered consultation feedback related to their local board area and then passed resolutions detailing their feedback and advocacy to the annual budget. Details of these resolutions are included in a report to the 7 June 2022 meeting of the Finance and Performance Committee.

52. There was general support from those boards that resolved on the proposed levers to manage budget pressures. Feedback from some local boards raised concerns regarding asset sales, in particular parks, reserves and green and open spaces.

53. There was general support from those boards that resolved on the proposed criteria to be used when making decisions about cost reductions. Feedback from some local boards considered that there was insufficient information on the proposal and requested that local board input be sought when further information is available.

54. The adopted advocacy initiatives and other requests raised by local boards focus on providing an equitable and sustainable service provision to the local communities of our growing city. The key themes include:

    - addressing environmental concerns, in particular water quality, restoration of beaches and the coast, and tree coverage
    - the need to invest in local waste recycling facilities to support a circular economy and waste minimisation
    - community investment in sports and aquatics facilities, parks, paths, public spaces, town centres, community assets and programming, particularly in areas of projected growth
    - the need for transport infrastructure that serves growing communities, particularly for investment in transport hubs, public transport networks, road infrastructure and initiatives to lower emissions.

Updated budget projections

Budget refresh

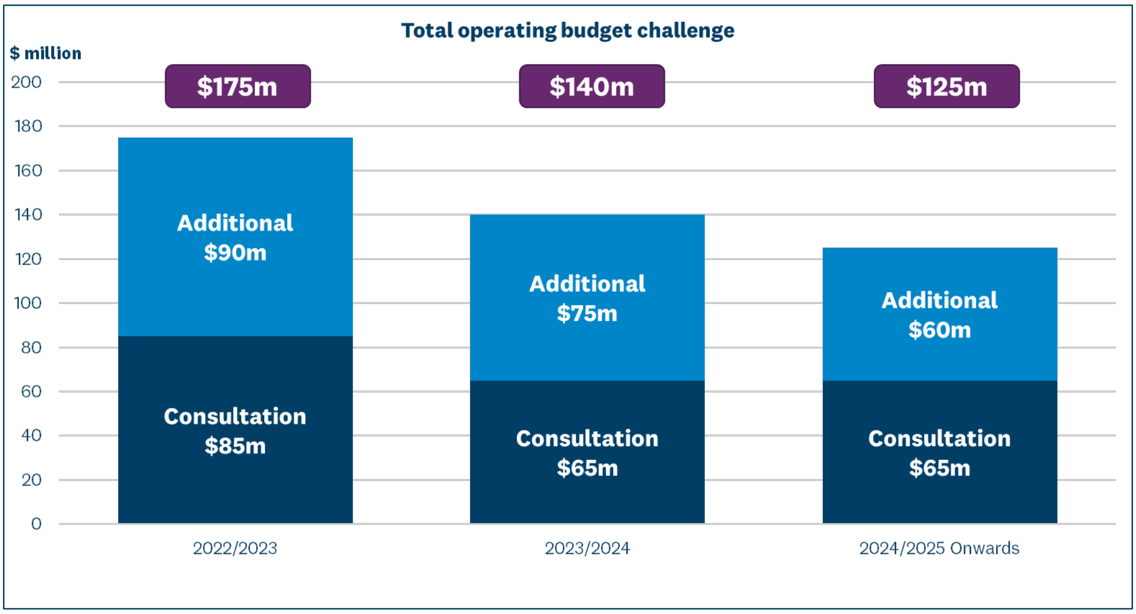
55. Following the preparation of the consultation document and supporting materials, and in preparation for the final Annual Budget 2022/2023 decisions, staff reassessed the key forecasting assumptions, particularly those related to COVID-19 and the flow on impacts on travel and the economy. At the same time, staff engaged in a comprehensive budget refresh programme where budgets across the group were reassessed using latest information to ensure that the proposed service levels and investments could be delivered. Details of these processes are included in Appendix B2.

56. The arrival of the Omicron variant of COVID-19 in January 2022 necessitated a re-look at related assumptions. Planned border openings and reductions in restrictions were delayed and this resulted in impacts on public transport patronage and our venues.

57. Economic assumptions around inflation and interest rates were updated to reflect market expectations. Global supply chain constraints have continued and been compounded by the war in Ukraine and Chinese border closures.

58. The budget refresh process was finalised in early April 2022 and identified additional budget pressures in both the short term and ongoing. These are detailed in Appendix B2.

59. The chart below shows the total operating budget challenges the council was projecting at that time, including those identified in the draft budget as consulted on and the additional challenges identified through the budget refresh.



60. After adjusting for around $35 million per annum of operating capacity available in our Recovery Budget, the enduring unmitigated operating cost pressure was projected to be around $90 million from 2024/2025 onwards.

Risk and uncertainty

61. A number of the key risks identified in the staff report in December 2021 and in the Consultation Document remain active and the levels of uncertainty around key forecasting assumptions remain high.

62. On 17 May 2022 staff presented to the Audit and Risk Committee on the risk management approach for the Annual Budget 2022/2023 (report CP2022/05055). This report identified five key financial risks.

63. The key financial risks and proposed mitigations for the Annual Budget 2022/2023 are:

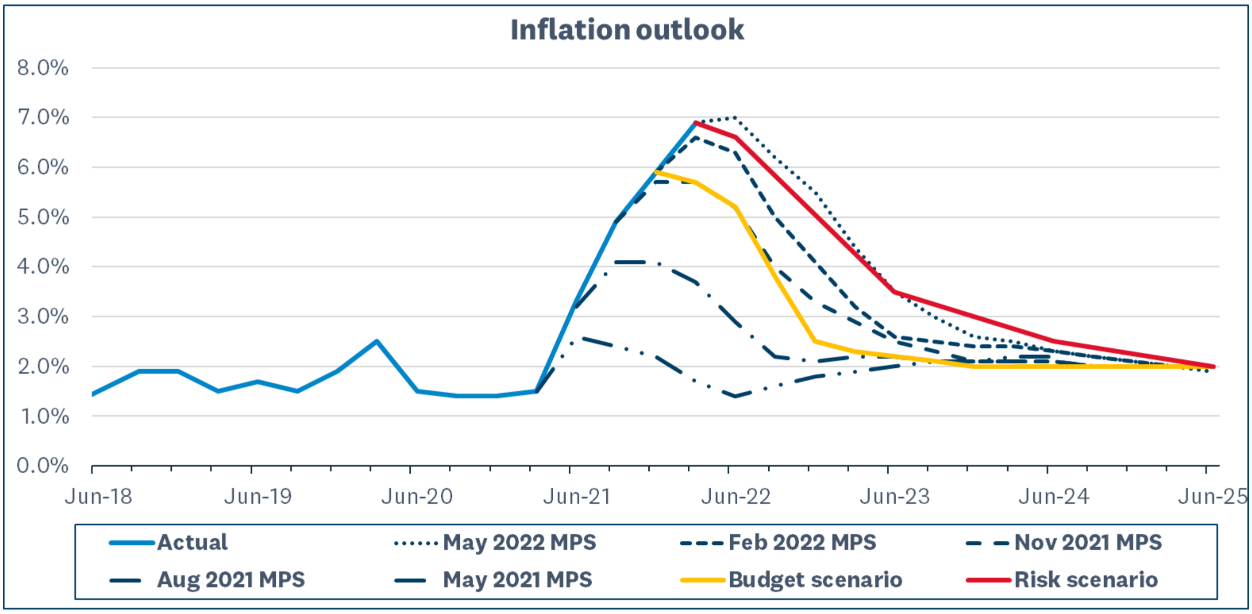
Key risks	Proposed mitigation and controls
Further increases to inflation and interest rates increasing cost pressures	
Further rises in inflation and interest rates could put further pressure on the council's operating position. An additional 1 per cent of inflation could add around $20 million of net operating pressure, depending on how it flows through to specific cost and revenue lines. Interest rate hedging provides a relatively high degree (but not complete) protection from rising interest rates in the short-term, and some protection over the medium to long-term.	Emerging trends will be closely monitored and managed with support from the council's Chief Economist and the Treasury Management Steering Group. Budgetary adjustments will be considered each year via the annual or long-term plan process.

Waka Kotahi funding uncertainty	
Auckland Transport might receive less operating funding support than anticipated to cover the rising net cost of public transport services (from both higher running costs and reduced farebox revenue) due to Waka Kotahi funding constraints.	Discussions are underway with Waka Kotahi and central government officials to find potential solutions to these funding challenges.
Cost increases for major capital projects	
The cost to complete major capital projects such as the City Rail Link and the Eastern Busway are likely to increase due to the impact of the lockdowns that have occurred, and rising input costs associated with the ongoing labour and supply chain disruptions. Increases to capital costs will also likely have flow on implications for operating costs and thereby put further pressure on the group's operating position.	The cost to complete major projects will be carefully reviewed and assessed, then funding implications and options will be considered when there is sufficient certainty around the magnitude of any material cost increases. These options may include changes to debt, asset, revenue and/or expenditure settings. To some extent, capital cost increases can be managed within the existing overall capital programme by deferring other projects. Sufficient debt headroom will be maintained to ensure debt financing can be considered as part of the mix of financial options.
Further COVID-19 disruption	
A resurgence of the Omicron variant or the emergence of a new variant may create further disruption to council revenue and activity.	Any significant changes to the COVID-19 situation will carefully be monitored and considered via the council group's forecasting and budgeting processes. The full range of financial options to respond can be considered via future budget processes. Sufficient financial flexibility and adequate debt headroom will be maintained to mitigate the risk of a further revenue shock causing our ratio of debt to revenue to exceed our policy limit of 290 per cent.
Need for further climate action	
Further council investment may be urgently required to meet carbon emissions reduction goals and adapt to a rapidly changing climate.	The council will continue to work with central government on climate change response and will closely monitor any events or policy changes that might trigger the need for urgent action. Any significant financial implications will be considered via the council group's forecasting and budgeting processes.

Updated economic trends

64. Following the budget refresh updates in April, council staff continue to monitor inflation and interest rate projections and assess the impacts these might have on the council's budget.

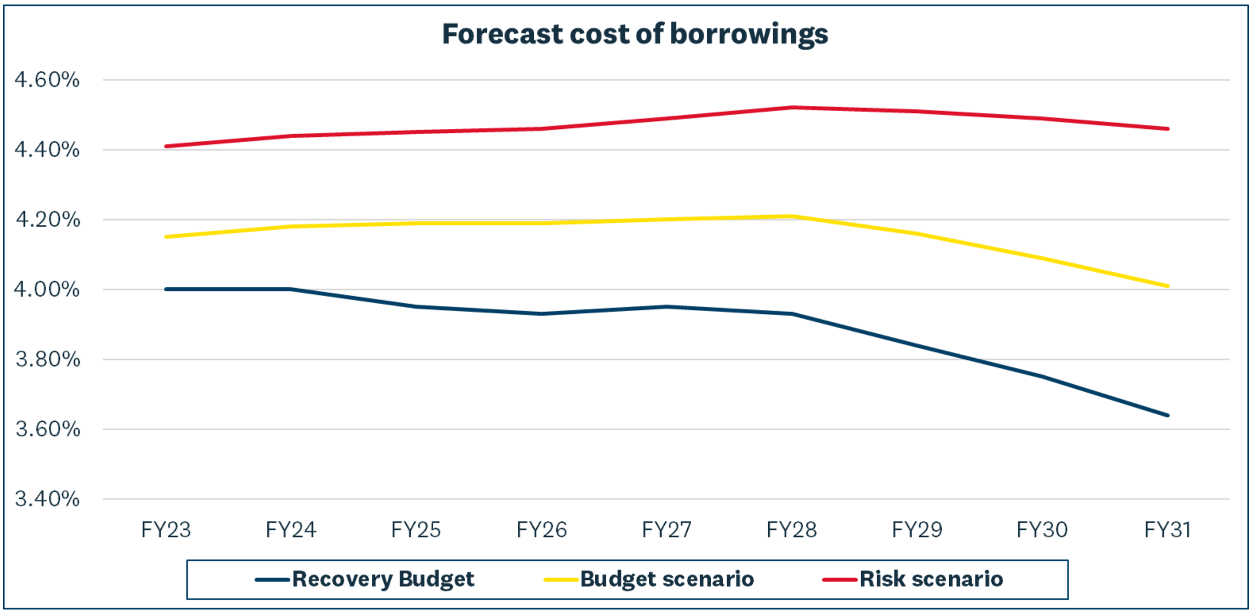
65. Inflationary pressures being seen globally continue to be influenced by the war in Ukraine, supply chain constraints and the responses of governments and central banks. While our updated budget is based largely on the Reserve Bank of New Zealand (RBNZ) inflation projections included in the November 2021 Monetary Policy Statement (MPS), subsequent projections (including February and May MPSs) indicate a risk that price increases could peak higher and remain elevated for longer.



66. An additional 1 per cent of inflation could add around $20 million of net operating pressure, depending on how it flows through to specific cost and revenue lines.

67. Both current market interest rates and forecasts are particularly volatile at the moment. This is largely driven by central bank responses to inflationary pressures.

68. The chart below shows the level of risk currently seen in our interest rate projections.



69. Interest rate hedging provides a relatively high degree (but not complete) protection from rising interest rates in the short-term, and some protection over the medium to long-term. However, an additional 0.1 per cent (10 basis point) increase on the weighted average interest cost faced by the council could add around $10 million of cost pressure.

70. Factoring in the potential impact of these projections, the ongoing budget challenge for the council to solve could be $90 million to $150 million.

Budget updates

71. The budget challenge to be addressed needs to be updated for new information received subsequent to the budget refresh which was finalised in April.

72. While future year projections for interest rates and inflation can be taken as risk factors, the impacts for 2022/2023 need to be addressed in the annual budget. Higher projected interest rates for the 2022/2023 year will add cost pressure of around $20 million.

73. The announcement of full funding for the Community Connect Card in the government's Budget 2022 reduces the budget pressure faced by Auckland Transport in all years by around $4 million.

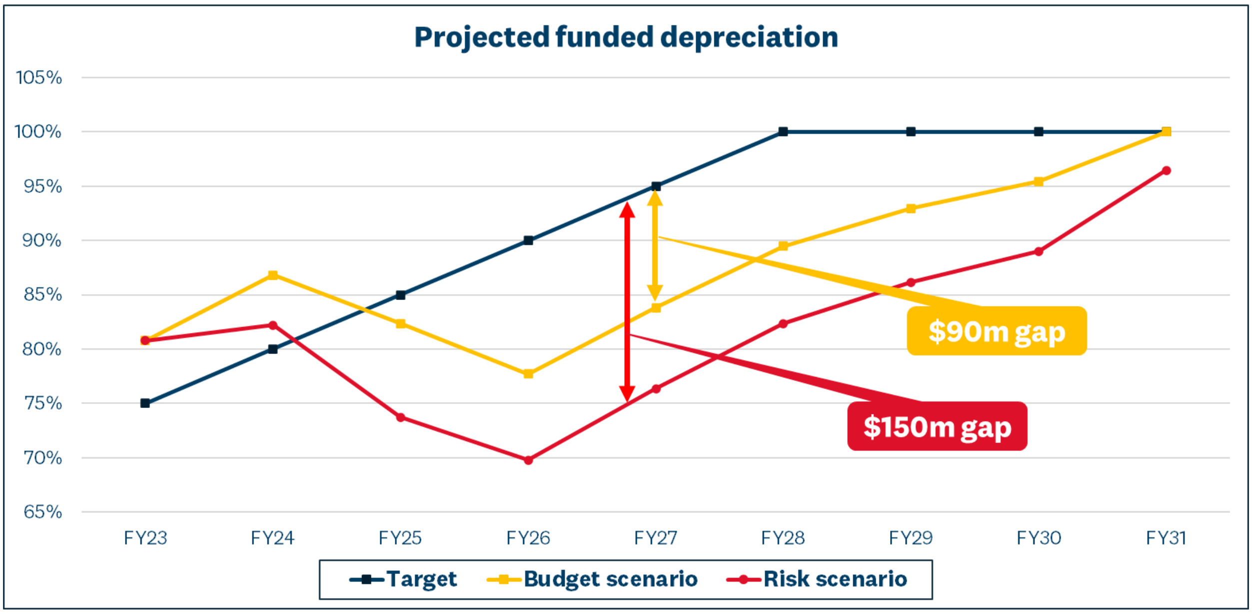
74. Other efforts to shrink our budget gap, such as the revisitation of Ports of Auckland profit projections, have slightly reduced the pressure faced, particularly in the short term.

75. The net impact of these updates increase the size of the pressure in the short term and make minor reductions to the lower end projections for the ongoing gap.

Financial strategy measures

76. The key indicators of the ongoing sustainability and prudence of our financial plans are our commitment to a balanced budget, including moving to full funding of depreciation, and our debt to revenue ratio.

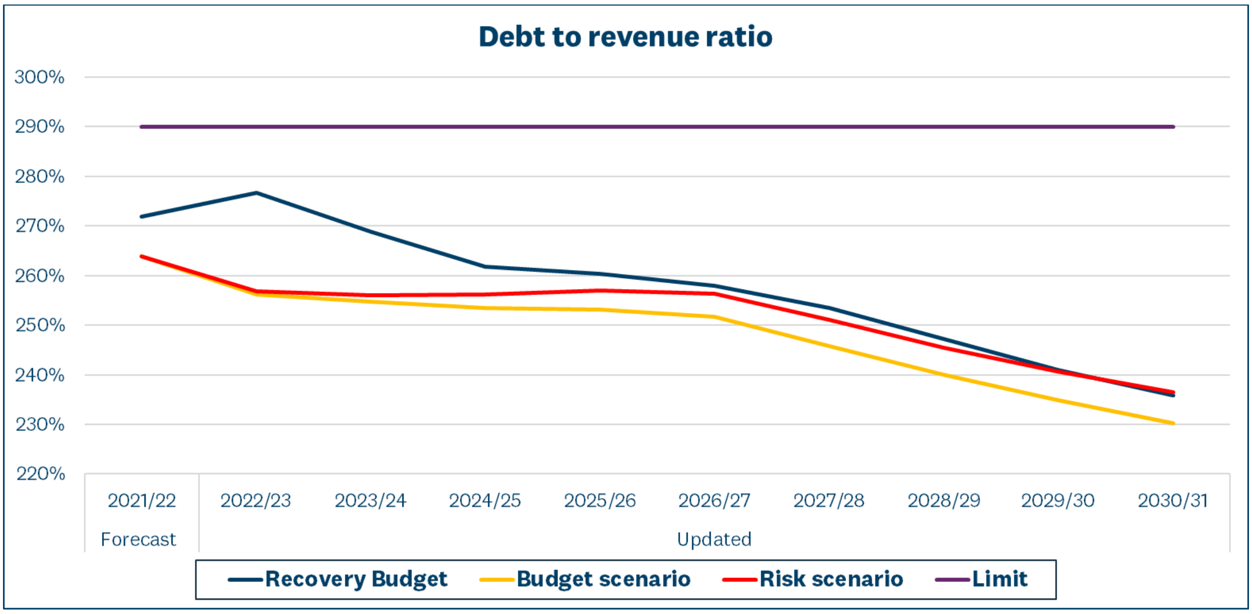
77. The chart below shows the projected level of effective funded depreciation, including the latest budget updates and the application of the full $127 million of better off funding.



78. The above shows that the council has sufficient operating funding to address the challenges in the next two years while still exceeding the minimum level of depreciation funding.

79. It also shows, however, the ongoing funding gap of $90-$150 million and that without mitigation the council would not achieve its target of fully funding depreciation till 2030/2031 or even later.

80. Given the primary pressures the council is facing are operating in their nature, they have limited adverse impact on the debt to revenue ratio. Additionally, the challenges the council has faced in recent years with capital delivery due to lockdowns has reduced the levels of borrowing incurred. As such the projected level of the debt to revenue ratio remains well below our limit and trends down over time.



Considerations for decision-making

Long-term financial sustainability and prudence

81. Maintaining a strong commitment to long-term financial prudence is critical to ensuring the council can maintain ongoing and cost-effective access to the capital it needs to fund its investments and to be able to respond to any future shocks. There are also specific obligations under the Local Government Act 2002 (LGA) that require local authorities to conduct their business in a financially prudent manner.

82. The key policy settings that ensure financial prudence are the debt-to-revenue limit and balanced budget approach included in the council's Financial Strategy, and the depreciation funding policy included in the council's Revenue and Financing Policy. The Revenue and Financing policy states that the council does not generally use borrowings to pay for operating costs and sets annual targets for the proportion of operating expense (including depreciation) that the council will fund from current operating revenue.

83. Due to the ongoing financial impacts of COVID-19 disruption, the projections within the Recovery Budget included a three-year delay to the council achieving a long-term balanced budget position where all operating costs, including depreciation, are covered by operating revenues. Additionally, the Recovery Budget included debt-to-revenue ratio levels of up to 290 per cent for the first three years, before gradually returning to our long-term target of 270 per cent.

84. In considering long-term prudence and sustainability, the council should consider both these measures. When the council adopted the Recovery Budget, staff advised that these temporary departures from long-term targets could be justified in light of the COVID-19 challenges however it is not recommended that there is any extension to these measures. To ensure best practice financial management it is recommended the council seeks to return to below its target debt-to-revenue level of 270 per cent, and to achieve full funding of depreciation without additional delay.

Credit rating

85. It is particularly important that we maintain the confidence of the investment community as the economic environment changes rapidly. This confidence is provided through our strong credit ratings, ensuring we continue to have access to credit markets to fund our investments and to be able to do so at cost effective rates. If our credit rating were to be reduced this would mean higher interest costs.

86. A key factor in the ratings provided to Auckland Council has been the consideration of our financial management. Our commitment to prudence and long-term sustainability has supported our high credit ratings. This has been further backed-up through the demonstrated willingness of the council to use a mix of levers to tackle the financial challenges faced since the beginning of the pandemic (i.e. through the Emergency Budget and our Recovery Budget).

87. In addition to financial markets and investors, our strong credit rating and commitment to financial prudence also provides confidence to other key stakeholders, including Aucklanders. Partners, such as the Crown look for stable, long-term collaboration on projects and initiatives that could deliver outcomes to the city. Aucklanders gain comfort from the fact that the funding they contribute, and the assets held on their behalf, are managed well and will continue to deliver benefits over time.

88. To ensure we demonstrate this strong financial management it is crucial that a multi-year view is taken of our budget. Notably, that where the pressures we face are related to permanent increases in costs or reductions in revenue, stakeholders will look for permanent solutions.

NZX disclosure

89. As the pressures we have identified in this report became clear, the council took action to reassure stakeholders that it was seeking to manage the impact on our budgets.
90. A New Zealand Stock Exchange (NZX) disclosure was made on 13 April 2022 which acknowledged that the council is experiencing ongoing revenue impacts form the COVID-19 pandemic and a structural increase in its cost base from rising inflation and interest rates, supply chain constraints and a tight labour market. The disclosure informed the market that the Finance and Performance Committee was reviewing updated projections and considering a range of potential budget mitigations as part of its work to finalise the council's Annual Budget 2022/2023. The potential levers to be considered were also listed.

Audit and risk advice

91. Following the presentation of the risk management approach for the annual budget to the Audit and Risk Committee on 17 May, the committee resolved to advise the Governing Body that an appropriate approach is being taken. This resolution specifically called out the need to address "the financial pressures in a sustainable and financially prudent way".

Supporting advice

92. To support high-quality decision-making, advice on budget updates and on available levers has been formed around clear frameworks, policies and evidence.
93. As seen above the budget refresh process has been based on evidence-based updates to forecasting assumptions and a structured approach to submitting and reviewing budget pressures.
94. Advice on the impacts of pressures on the council's overall position and the appropriateness of different levers is underpinned by the financial parameters and policies set through our Financial Strategy and the Revenue and Financing Policy.
95. Advice on the implementation of different levers is based on clear frameworks. The risk-based capex prioritisation model, developed for the 10-year budget, is detailed in Appendix B3 and has been used to build capital deferral scenarios also included in that attachment. The service prioritisation framework, which we consulted with the public on in February, has been used to inform the advice on operating cost reductions included in Appendix B4.
96. These approaches enable the prioritisation and protection of key services and outcomes including protecting critical assets, delivering essential services, climate change work and Māori outcomes.

Mitigation approach

97. A three-stage approach has been adopted to mitigating the identified budget challenges:

- contain the gap – work to avoid the gap growing any larger
- shrink the gap – work to challenge pressures and identify quick-wins
- close the gap – political decision-making around the use of key budget levers.

Contain the gap

98. The first stage of mitigation is around maintaining fiscal restraint and delivering on existing commitments.

99. Staff have worked across the group to avoid further budget pressures wherever possible and to find offsetting mitigations within existing budgets.

100. Additionally, a number of existing budget targets from the Recovery Budget need to be implemented in order to avoid an increase to the operating gap. These include:

- $90 million of enduring cost reductions
- asset recycling targets of $70 million per annum
- savings targets in CCOs from the CCO review
- ongoing value-for-money reviews.

101. Any additional cost agreed to through this budget will directly impact the size of the budget gap and require mitigating actions.

Shrinking the gap

102. Shrinking the gap has involved active work by staff, supported by elected representatives, to challenge budgets and assumptions.

103. This work has identified a few areas where the size of the challenge has been reduced including profitability projections for Ports of Auckland and funding requests from regional amenities.

104. Through this stage we have also looked at the settings within our budgets that allow for a reduction in the operating budget challenge.

Operating budget headroom

105. This included the identification of operating budget headroom from the 10-year Budget that allowed for the ongoing gap to be closed permanently by $35 million in the draft budget for consultation.

Additional borrowing in the short-term

106. Council projections in the 10-year Budget and in the draft annual budget showed Auckland Council exceeding the minimum level of funded depreciation in the 2022/2023 and 2023/2024 years. This meant that, effectively, the council planned to fund more capital expenditure from operating sources and less from borrowing.

107. To shrink the gap for these two years, the council could choose to lower this level of depreciation funding towards the policy minimum. This would mean holding additional debt and a

decision to do this needs to appreciate the ongoing operating cost pressure in terms of interest cost. This option would, however, allow the council time to appropriately work through other mitigation initiatives.

Better off funding

108. The Consultation Document identified the commitment of central government to provide councils with funding (termed "better off funding") as a part of the Three Waters Reform process. The draft budget included in the consultation material applied $85 million of the projected $127 million that Auckland Council expects to receive through this process to covering operating costs that were at risk due to funding challenges. To shrink the gap the remainder of the expected funding can also be applied to address the funding gap.

109. Staff have been working with central government colleagues around the application for better off funding and have a high degree of confidence that the full level will be available to address operating funding challenges in 2022/2023.

Closing the gap

110. As identified in the earlier chart on funded depreciation, the actions taken in the first two stages are sufficient to address the funding challenges for the next two years but that an ongoing operating funding gap of $90-$150 million remains to be addressed.

111. A number of levers are available to the council to address this (particularly given the lead time) but all will involve trade-offs and consequences.

Balance sheet solutions

112. Balance sheet solutions involve realising more value from existing assets.

113. One option would be to increase the targets for recycling surplus, non-strategic assets. The existing targets set through the Emergency Budget and Recovery Budget are already challenging and, particularly in current market conditions, increases to targets would not be practical.

114. Decisions on strategic assets such as the shareholding in Auckland International Airport Limited or the ownership of Ports of Auckland Limited would require an amendment to the council's 10-year Budget which could be considered by the next council.

115. Advice on the airport shareholding has been provided earlier in this process with a decision made not to proceed to consultation at this time.

116. Work on options to increase value from the port is underway and as this advice is provided, the council could choose to proceed to consult on them.

Rates increases

117. The council has not consulted on options for a higher increase to general rates for the 2022/2023 year.

118. The council could signal a higher path of rates increases for following years. The new council would need to consult and make decisions on these through future budgeting processes.

119. The table below shows the potential mitigation impact that different rates settings over the next three years could have on the level of ongoing operating funding gap.

General rates increase			Ongoing additional annual revenue
2023/24	2024/25	2025/26	
3.5%	3.5%	3.5%	$0m
4.5%	3.5%	3.5%	$23m
4.5%	4.5%	3.5%	$45m
4.5%	4.5%	4.5%	$69m
5.0%	4.5%	4.5%	$80m
5.0%	5.0%	4.5%	$92m
5.0%	5.0%	5.0%	$103m

120. Current affordability assessments suggest that current rates are well below the 5 per cent of median household income for home-owners benchmark. Even with the highest level of increase in the table above it is projected that this would remain the case.

Long-term capital deferrals

121. The deferral of capital expenditure would deliver consequential reductions in operating costs such as interest, running costs, maintenance, and depreciation.

122. While this mitigation is only temporary, a plan to defer projects out by around seven years would provide operating cost reductions to beyond a point where our projected operating balance has recovered.

123. Council staff have considered a number of different capital deferral options to help close the projected ongoing funding gap.

124. To avoid excessive impact on the planned capital programme in one year it is suggested that expenditure would be deferred out of the next three financial years and that the deferral would need to be around six to seven years.

125. Different levels of capital deferral were investigated between $250 million and $750 million. Given the projected impacts on critical asset risk, key service levels, and priority outcomes, it is assessed that deferrals of $250 million is most realistic.

126. It is estimated that $250 million of deferrals would provide around $15 million of consequential operating cost reduction by 2024/2025. This is dependent on the specific projects involved, the planned operating costs and useful lives of the resultant assets, and any external funding arrangements for the projects.

127. A scenario for the deferral of $250 million has been prepared making use of the capital prioritisation approach employed through the 10-year budget. This focuses primarily on asset-related risk and key outcomes such as climate change mitigation and adaptation. This scenario is laid out in Appendix B3.

Operating cost reduction

128. Reducing operating expenditure can be achieved either through increased efficiency or through a reduction in service levels.

129. The Auckland Council Group continues to focus on increased efficiency and providing best value for Aucklanders in all we do. A number of existing savings and efficiency targets are already baked into existing budgets and work is ongoing to fulfil these.

130. Any significant changes to service levels would likely require consultation and staff would need to start work now to ensure high quality advice is ready in time to inform the next budget process.

131. The council consulted through this annual budget on a framework through which to assess our services when looking to make adjustments to service levels.

132. A staged approach to implementation of service level changes is suggested with implementation of tactical opportunities, delivering around $30 million, in the Annual Budget 2023/2024 and then a more fundamental, strategic review of services undertaken for the next long-term plan with a target to deliver around $50 million from 2024/2025.

133. More detail of this approach and some potential service areas that could deliver the initial, tactical, reductions is included in Appendix B4.

Budget decision-making over time

134. As noted earlier it is important that this annual budget takes a multi-year view. This budget should look to provide a sound base from which the new council can build but cannot make binding decisions on future service levels and rates.

Annual Budget 2022/2023

135. The application of better off funding and existing budget debt capacity means that no specific mitigating decisions are required to close the gap for the Annual Budget 2022/2023 year.

136. The council will need to decide, however, on any changes to be made to the capital programme as part of a capital deferral programme to deliver operating savings.

137. The council will need to make decisions on the funding requests included in Appendix B1, noting that they will increase the size of the operating gap.

138. Additionally, any progress that can be made to find early operating savings would reduce the reliance on debt in the short-term and reduce the operating gap over the longer-term.

Annual Budget 2023/2024

139. Decision-making on items for consultation for the next annual budget will need to be made by the new council in December 2022.

140. To support this decision-making, direction now to staff on areas for further work on $30 million of tactical service level opportunities is suggested.

141. The new council will review updated budgets and key forecasting assumptions such as interest rates and inflation and will need to make its own choices on how to address budget challenges.

142. If the new council does not choose to proceed with the tactical opportunities presented, it may need to use other levers such as rates. If projections are that the budget gap is toward the upper

end of the $90-$150 million range, then levers such as rates may be required in addition to the service level changes.

10-year Budget 2024-2034

143. 2024/2025 will represent the first year of the next 10-year budget and the new council will have sufficient time to work through options. However work on some levers such as making significant changes to operating services can have very long lead times.

144. To support a high-quality strategic review of services, it is suggested that direction is given to staff to begin this strategic work immediately with the aim of achieving an additional $50 million of net operating cost reduction so that it can be ready to support the early stages of the next 10-year budget in the second half of 2023. It is also recommended that staff report to the Value for Money Committee as these strategic opportunities are scoped.

145. A number of other options may also become available to the council at this stage, including the analysis around value from the port, outcomes of both water reform and the Future of Local Government Review, and new transport funding opportunities such as congestion charging. The new council will be able to assess these matters with more certainty as it works through the next 10-year budget.

Projections with mitigation

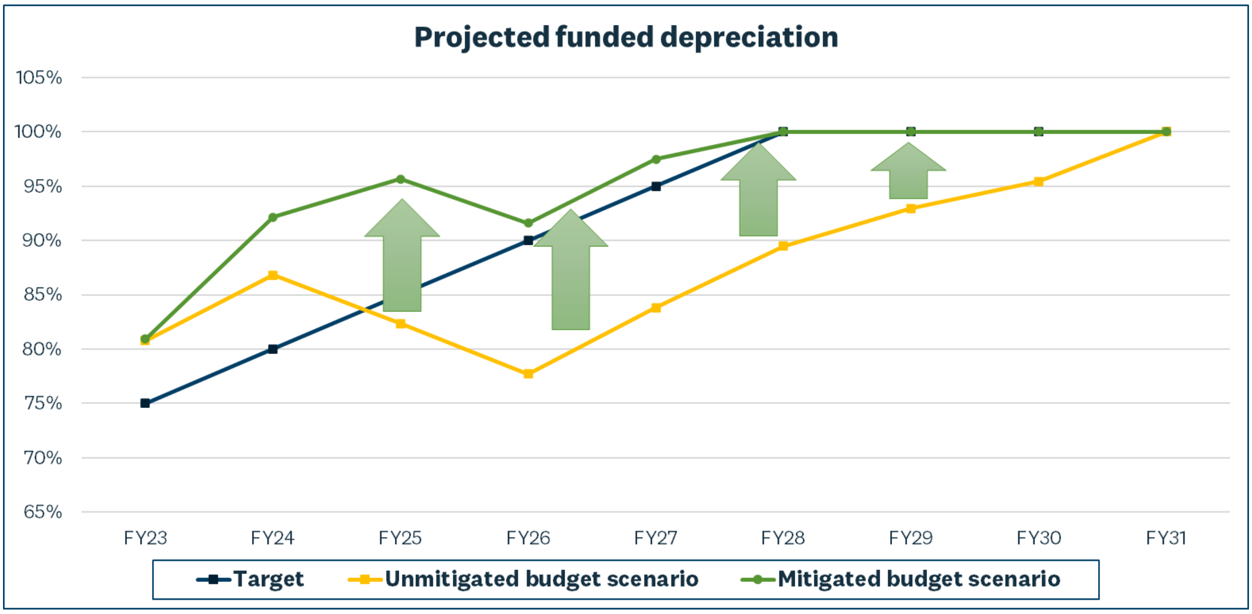
146. While our work to shrink the gap has addressed the pressures in the next two years, key decisions will still need to be made on an approach to address the ongoing budget gap of $90-$150 million.

147. As we have highlighted earlier it is crucial that the council presents an approach to demonstrate its commitment to long-term financial sustainability and prudence. This section aims to support this outcome by using some financial modelling of future budget scenarios to show how the ongoing gap might credibly be addressed by the new council.

148. One potential scenario is the budget scenario (with a gap of $90 million) with the gap mitigated by a blend of capital deferrals and operating cost reductions at the levels suggested in the sections above. These are:

- capital deferrals of $250 million out of the next three years and into the last three years of the 10-year budget
- tactical service level opportunities, delivering $30 million of ongoing operating expenditure reduction, from 2023/2024
- strategic service level review, delivering around $50 million of ongoing operating expenditure reduction, from the first year of the next 10-year budget (2024/2025).

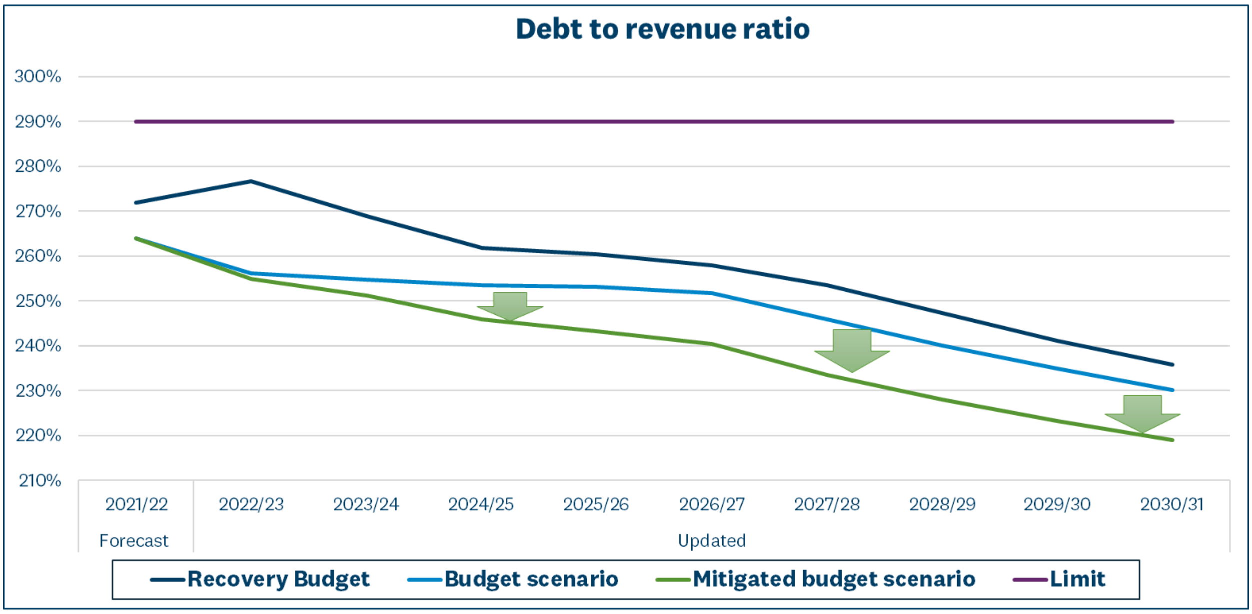
149. The chart below shows that these mitigations would sufficiently cover this level of cost pressure and return the council to projections whereby the minimum level of depreciation funding is covered in every year, and full funding is achieved by 2028.



150. This mitigation would not, however, be sufficient to address the higher levels of cost pressure that are shown in our risk scenario. If these risks materialise additional decisions will need to be made through future planning processes around additional mitigations, either through more aggressive use of these levers and/or the use of other levers such as rates.

151. Preliminary analysis of the $150 million gap scenario indicated that this could be closed by the new council using the mitigations outlined above, in combination with a 4.5 per cent general rates increase in each of the three years of the new council term rather than the currently planned 3.5 per cent.

152. The below chart shows that this mitigation (based on the $90 million scenario above) will provide further headroom below both our debt-to-revenue limit and our long-term target.



Conclusion

153. Auckland Council continues to face serious budgetary challenges from both COVID-19 disruption and a fast-moving economic environment.

154. While some mechanisms are available to the council, such as better off funding, to address our operating funding gap in the short-term, there remains an ongoing budget gap of $90-$150 million.

155. It is important that the council presents a credible plan that will look at challenges we face over time and demonstrates a continued commitment to long-term financial sustainability and prudence. This is valued by our key stakeholders including credit rating agencies.

156. A number of mitigation levers are available to the new council to address the ongoing funding gap and many of these become more available as we move into future planning processes with time for full staff advice and public consultation.

157. A package of mitigating actions has been suggested that would cover the lower end of this budget gap, a budget scenario of $90 million, and ensures a balanced budget, funded depreciation, and prudent financial projections. This package includes:

- capital deferrals of $250 million out of the next three years and into the last three years of the 10-year budget.
- tactical service level opportunities, delivering $30 million of ongoing operating expenditure reduction, from 2023/2024
- strategic service level review, delivering around $50 million of ongoing operating expenditure reduction, from the first year of the next 10-year budget (2024/2025).

158. Conversely, if the capital expenditure changes are not made now and work does not begin soon on service changes, then the new council may be left in a position where it has few choices but to proceed with much higher rates increases in order to sustainably balance its operating budget.

159. While some decisions need to be made for the Annual Budget 2022/2023, including initial stages of capital deferrals and direction to staff for work on service level changes, many of the decisions beyond 2022/2023 will be made by the next council, following public consultation and engagement with local boards. What is important is that steps are taken now to ensure the new council is well set up to be able to make the choices it needs to make in order to sustainably and prudently manage its finances.

Attachments

B1	Requests for funding
B2	Revised forecasting assumptions and budget updates
B3	Capital prioritisation framework
B4	Service prioritisation

Appendix B1: Requests for funding

Purpose

1. To consider the requests for funding received from COMET Auckland, Coastguard New Zealand and Eden Park Trust.

Context

2. The council received these requests for funding during the consultation process of the draft Annual Budget 2022/2023. These requests sit outside other existing grant/funding processes.
3. In considering whether to fund requests of this nature, the council should consider:
   - Whether the requests would have a temporary impact or an ongoing impact on the council's financials
   - That the requests have not been included as a budget pressure and there are no existing/planned funding sources for these requests
   - That decisions to provide funding will require a further increase to mitigating actions (e.g. future reduction in services, an increase in rates, borrowing for operating expenditure).

COMET Auckland

4. COMET Auckland (COMET) is a non-substantive CCO which works to drive change in Auckland's education and skills systems with an equity focus. Their work contributes to economic and social outcomes in the Auckland Plan and other council strategies (such as the economic development strategy). The council is undertaking a review of non-substantive CCOs in 2022.
5. The current council funding is set at $558,000 per annum, with no provision for inflation. COMET is seeking additional funding for the next 10 years for:
   - Inflation pressures - $80,000 per annum ongoing
   - Two new Māori and Pasifika leadership roles - $220,000 per annum ongoing. COMET outline that these additional roles would help respond to urgent post-Covid education needs and demands from across communities.
6. Staff advise that the main options to respond to this request are:

Option A	Option B	Option C
Funding increase of $80,000	**Funding increase of $300,000**	**No further funding**
Addresses inflationary pressures on existing services	Addresses inflationary pressures on existing services and funds new Māori and Pasifika leadership roles	No cover for inflation or funding for new roles
Implications: Enables continued delivery of existing service levels for COMET The council will need to identify mitigating action to fund additional $80,000	**Implications:** Enables delivery of existing and expanded service levels for COMET The council will need to identify mitigating action to fund additional $300,000	**Implications:** Will require COMET to identify efficiency gains or to reduce services

Coastguard New Zealand

7. Coastguard New Zealand, formerly Coastguard Northern Region, was previously funded by the council through Auckland Regional Amenities Funding Board (ARAFA). However, when amalgamated with the national body they were no longer eligible for ARAFA funding.

8. In June 2020, a two-year funding agreement was established after exiting ARAFA, which expires in June 2022. The funding agreement sets out key performance indicators to be met for search and rescue, communications, and education.

9. Coastguard New Zealand is seeking continuation of long-term funding relationship with the council for three years.

10. Coastguard has had a longstanding relationship with Auckland Council over many years. It has consistently met the performance measures set for it in the current funding agreement.

11. Coastguard's funding comes from a range of sources, including central government (via NZ Search and Rescue), lottery grants, councils (including Auckland), and membership subscriptions. Not providing Coastguard ongoing funding is likely to have an impact on timeliness of response in the Auckland region and on Coastguard's marine education programmes.

12. Staff advise that the main options to respond to this request are:

Option A	Option B	Option C
Agree requested funding for two years	**Agree lower-level funding**	**No funding from the council**
Agree funding: $824,000 for FY23 $856,960 for FY24 Set up a two-year funding agreement until next LTP	Agree $750,000 funding for FY23 Set up a one-year funding agreement until longer-term partnership agreement agreed at next annual budget	
Implications: Enables Coastguard to continue to deliver services and meet council KPIs for search and rescue, communications and education Council will need to identify mitigating action to fund the amount of any funding agreed	**Implications:** Regional education services and KPI may be unable to be delivered Council will need to identify mitigating action to fund additional $750,000	**Implications:** There may be reductions in services delivered compromising ability to respond in an emergency

Eden Park Trust Board

13. The current development funding agreement between Auckland Council and the Eden Part Trust Board concludes in June 2022. Through their annual budget submission, the Eden Part Trust Board have requested $6.28 million of grant funding for the next financial year and ongoing.
14. The request is based on an Ernst & Young report from 2018. This report outlines a $62.8 million 10-year maintenance/refurbishment capex plan. The $6.28 million per annum request aligns to one-tenth annually of the total identified in the plan.
15. As with many organisations, including the council, Eden Park's post COVID-19 financial situation is uncertain. The council is in a position where it has challenging finances and has no funding in the plan for this request.
16. A Development Funding Agreement ran for three years on the understanding that: we would jointly prepare an operational partnering proposal by March 2020; and seek to amend the Eden Park Trust Deed to appropriately align the governance of Eden Park with funding.
17. Further to this, in July 2020 the CCO review recommended that:

    "[Tātaki Auckland Unlimited] explores, at the council's direction, the critical need for joint management and operation of the city's four stadiums with Eden Park Trust"

18. Tātaki Auckland Unlimited and Council staff are continuing to progress a single stadium operator for the city's stadiums with the Eden Park Trust Board.
19. While progress has been made these items have not been concluded.
20. In the meantime, council staff are currently engaging with the Eden Park Trust Board to better understand their short-term funding needs. At the time of writing, this engagement is still ongoing. Council staff will therefore report separately to the Finance and Performance Committee or the Governing Body on any necessary short-term funding support.

Appendix B2: Budget refresh and analysis of changes

Purpose

1. To provide an overview of updates to budgets over the period of February 2022 to early April 2022 for the Auckland Council group.

Budget refresh process

2. The draft Annual Budget 2022/2023 was based on year two of the 10-year Budget 2021-2031, updated for new information. The draft budget included capital investment of $3.0 billion, operating expenditure of $4.9 billion, a debt to revenue ratio of 271% and an overall average general rate increase of 3.5%.
3. Since the draft budget for consultation was agreed in December 2021, a budget refresh process was undertaken to review and identify any relevant new information across the group. The key parts of the process involved:
   - Revisiting and issuing of updated significant forecasting assumptions
   - Budget review and revision to reflect the updated assumptions, the effect of any relevant council decisions and updates to the latest revenue, cost and timing projections
   - Updating group capex prioritisation information
   - Reviewing existing and new cost pressures.
4. Finance staff, alongside the Chief Economist, reviewed and revised the significant forecasting assumptions that underpin council group budgets. These were issued to the various council departments and Council Controlled Organisations (CCOs) on 17 December 2021 to ensure different areas of the group took a consistent view of the overall operating environment.
5. The updated forecasting assumptions were made in the areas related to the COVID-19 Protection Framework, borders and travel, population growth and development, and inflation and economic environment.
6. Assumptions about the COVID-19 Protection Framework were made based on the best expectations in December 2021. At that stage the expectation for the 2022/2023 financial year was:
   - First two quarters of FY23 (the 2022/2023 financial year) at Orange, with the remaining two quarters at Green
   - Borders open for all of FY23, with self-isolation requirements
   - Limited international events for first half of financial year due to border uncertainty
   - Full schedule of domestic events, but may be limited through behavioural caution (especially at Orange).
7. Additionally other more optimistic and pessimistic scenarios were provided in order to capture the sensitivity of budget impacts.
8. During the course of the budget refresh process the COVID-19 situation evolved quickly with the emergence of the Omicron variant, a resultant change in traffic light levels, reviews of traffic light definitions, the removal of both managed isolation and self-isolation requirements for travellers, and changes to the timing of border limitations. Staff worked to ensure that the refreshed budgets reflected as closely as possible the latest information and expectations.

9. The outlook for the economic environment continues to be highly uncertain. To determine inflation assumptions for this budget, council staff considered the various financial projections published by major financial institutions including the Reserve Bank of New Zealand - Te Pūtea Matua (RBNZ).

10. The consumer price inflation projections used for the main scenario for the final Annual Budget were largely based on the RBNZ Monetary Policy Statement (MPS) from November 2021, which was roughly in the middle of the range of published projections at the time the assumptions were issued.

Budget	2021/2022 year inflation assumption	2022/2023 year inflation assumption
Draft Annual Budget 2022/2023	1.5%	2.0%
Final Annual Budget 2022/2023	5.2%	2.5%

11. Council departments and CCOs were provided these assumptions to ensure the group took a consistent view of the economy. However, guidance was also provided that suggested consideration should be given to their business specific inflationary pressures, contractual arrangements and supply chain pressures. It was acknowledged that the nature and extent of inflationary pressures for the council group is very different to that faced by household consumers and that it is also is very different for different types of activities across the council group. There is no single “council inflation rate” that is automatically applied to group budgets.

12. The council’s business units submitted updated budgets to finance staff in March, which was reported to the Finance and Performance committee on 13 April 2022. This report covers the budget updates only to that point. Further mitigating actions taken to shrink the gap since April are included in the covering report.

Updated operating budget position

Group total

13. In the process of reviewing and updating budgets, including consideration of the updated assumptions, the various business units across the council group reported a number of consistent key themes:
    - Further temporary revenue impacts from COVID-19 and the associated health restrictions and behavioural trends
    - A permanent uplift in costs from higher inflation assumptions and interest rate projections
    - Additional cost pressures from new statutory, legislative and contractual requirements.

14. In total, these impacts are expected to add an additional net $90 million to the existing operating budget shortfall in the 2022/2023 year that was identified at the draft budget stage of the process. Of this, an additional $60 million is expected to be ongoing.

15. A high-level breakdown of these additional net cost pressures by organisation is set out in the following table.

Entity	2022/2023	2023/2024	2024/2025 Onwards	Notes
Auckland Transport	$41m	$19m	$16m	Net impact of additional pressures and revenue improvements/other mitigations
Auckland Council	$34m	$32m	$13m	Net impact of additional pressures and revenue improvements/other mitigations
Tātaki Auckland Unlimited (TAU)	$10m	$6m	$6m	Reduced revenue from lower activity and increased staff costs
POAL	$1m	$4m	$8m	Updated profitability projections
Eke Panuku	$0m	($2m)	($2m)	Revenue improvement from commercial properties and marinas
Interest	$1m	$13m	$23m	Impact of latest interest rate projections offset by delays to group capital programme delivery
Other group items	$2m	$2m	($5m)	
Total	**$90m**	**$75m**	**$60m**	

16. As part of the budget review process, staff have already worked with the Mayor, the Mayoral Office and the CCO Boards where relevant to take action to mitigate the operating budget shortfall, including:
    - Reviewing revenue projections including in Auckland Transport, Tātaki Auckland Unlimited, Regulatory and Eke Panuku
    - Identification of sustainable cost savings across the group
    - Agreed reductions in third party amenity grants (e.g. MOTAT and AWMM) following discussions with these organisations
    - Reduced tourism and destination marketing costs in response to APTR suspension
    - Deferring various cost pressures for future consideration if economic conditions improve
    - A review of capital delivery rates – reducing interest and depreciation projections.

    These mitigations have already been included as part of the operating gap shown above.

17. More detail of each organisation's pressure is discussed below.

Auckland Transport

Entity	2022/2023	2023/2024	2024/2025 onwards
Auckland Transport	$41m	$19m	$16m

18. Auckland Transport is expecting lower public transport revenue from lower patronage due to COVID-19 impacts and behavioural changes. There is expected to be a $24 million impact in 2022/2023 with patronage expected to be only 71% of the level assumed in the consultation budget. This pressure is expected to reduce over time as patronage returns to near pre-COVID levels.

19. Other ongoing operating pressures Auckland Transport is facing include:
    - Higher costs of around $8 million p.a. under the public transport operating model (PTOM)
    - Approximately $5 million p.a. expected ongoing costs relating to upgrading the Devonport ferry service
    - Net costs of around $4 million p.a. from the Community Connect initiative[1]
    - $6 million p.a. for higher public transport (PT) base contract indexation costs.

20. Auckland Transport is partially mitigating impacts on its ongoing cost base through:
    - Revenue improvements by reviewing patronage projections and rental income
    - Sustainable cost savings by reviewing PT contract costs and professional services and research expenses.

    These mitigations reduce the net ongoing pressures from Auckland Transport to about $16 million p.a. from 2024/2025 onwards.

Auckland Council

Entity	2022/2023	2023/2024	2024/2025 onwards
Auckland Council	$34m	$32m	$13m

21. Auckland Council's ongoing cost base is under pressure from the higher-than-expected inflationary environment. In particular, Auckland Council is facing large pressures to attract and retain skilled staff in the Regulatory, Planning and ICT areas. Workforce pressures alone are expected to add over $20 million p.a. to the ongoing cost base.

22. Auckland Council has largely managed to absorb non-staff inflation within existing budget envelopes. However, this will need to be reviewed over the coming financial year as contract negotiations are completed and the full extent of the higher inflationary environment is realised.

23. Absorbing higher inflation has left little room for new expenditure such as the Governance Framework Review and additional ICT security requirements. These other budget updates are expected to add over $6 million p.a. to the ongoing cost base.

24. The higher inflationary environment is also expected to add $10-20 million p.a. of depreciation to the ongoing cost base as replacement values for assets increase. This increase in depreciation will ensure we are able to fund the additional costs of renewing assets.

25. Auckland Council has looked to mitigate impacts on its ongoing cost base by:
    - Reviewing Regulatory revenue projections
    - Finding sustainable cost savings in its corporate support areas
    - Reviewing capital delivery rates – resulting in interest, depreciation and consequential opex savings.

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[1] As discussed in the covering report, this $4 million pressure was subsequently resolved by way of a central government budget announcement on 19 May 2022. This has slightly reduced the overall cost pressures relative to the number set out in this report.

26. These mitigations reduce the net ongoing pressure from Auckland Council to about $13 million p.a. from 2024/2025 onwards.

27. Auckland Council is also facing a number of pressures that are temporary in nature. These include:
    - Revenue pressures relating to lower usage of facilities due to COVID-19 related restrictions and hesitancy.
    - Additional costs related to legislative and statutory requirements, including responding to the government's new National Policy Statement – Urban Development (NPS-UD).

Tātaki Auckland Unlimited

Entity	2022/2023	2023/2024	2024/2025 onwards
Tātaki Auckland Unlimited	$10m	$6m	$6m

28. Tātaki Auckland Unlimited's (TAU) additional ongoing cost pressures are primarily related to attracting and retaining skilled staff due to higher inflation and market pressures. These workforce pressures are expected to add approximately $6 million p.a. to the ongoing cost base.

29. Further to this, in the short term, there is an expected net revenue loss due to cancelled events because of uncertainty at the borders and contractual obligations for the Viaduct Events Centre (VEC). The net revenue loss is expected to be $3 million in the 2022/2023 year only.

30. TAU have worked to mitigate these impacts by reviewing revenue projections as changes to border restrictions have been announced.

Eke Panuku

Entity	2022/2023	2023/2024	2024/2025 onwards
Eke Panuku	$0m	($2m)	($2m)

31. Eke Panuku is expecting additional ongoing staff costs due to the higher-than-expected inflationary environment. These additional costs are more than offset by higher projected revenue from commercial property rental and marinas.

32. In the 2022/2023 financial year, there are also additional operating costs expected for regeneration activity, rental expenses and consultancy. These can be managed within the projected ongoing revenue improvement.

Other items

Entity	2022/2023	2023/2024	2024/2025 onwards
POAL	$1m	$4m	$8m
Interest	$1m	$13m	$23m
Other group items	$2m	$2m	($5m)

33. Ports of Auckland Limited (POAL) budget was updated for their latest profitability projections.
34. The higher inflationary environment is also putting pressure on interest rates. Compared to the draft budget, latest interest rates as at early April 2022 had increased by 3 basis points in FY23. This gap was projected to grow to 50 basis points by FY31.

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Draft	4.12%	4.09%	4.04%	4.00%	3.98%	3.92%	3.80%	3.64%	3.49%
Current	4.15%	4.18%	4.19%	4.19%	4.20%	4.21%	4.16%	4.09%	4.01%

35. Staff have also reviewed the expected dividend from the council's investment in Auckland International Airport Limited. Market expectations for dividends have moved largely unfavourably against the draft budget's projections.
36. While the border openings provide a small benefit in the short-term, expectations over the medium to long term have worsened with uncertainty over the passenger outlook, the deferred aeronautical repricing, post COVID-19 retail recovery, and the profile of the capital development pipeline. This would reduce the dividends received by the council compared to previous projections by around $3-5 million p.a. from 2025/2026.
37. The other group items line also includes minor funding adjustments in line with our revenue and financing policy.
38. Finance staff have also updated the group budgets for a number of other factors in line with standard practice. This includes reviewing opex carry-forwards from 2021/2022 into 2022/2023 and beyond, phasing of debt-funded opex programmes, and working capital assumptions. These updates do not require any changes to our funding parameters.

Watercare Services Limited operating budget changes

Projected Watercare budget changes	2022/2023	2023/2024	2024/2025
Direct revenue (including IGC) increase	$70m	$50m	$48m
Direct expenditure increase	$31m	$19m	$3m
Net direct expenditure reduction	**$39m**	**$31m**	**$45m**

39. Watercare's activities are fully funded through their own charges (primarily volumetric water charges) and receive no rates funding.

40. Watercare is now projecting a favourable net operating movement against the draft budget for consultation. As a non-rates funded activity, this favourable movement cannot be used to offset the operating cost pressures identified across the group.

41. Watercare is anticipating higher operating revenue, primarily driven by forecasted higher level of construction leading to better Infrastructure Growth Charge (IGC) revenue projections. This is partially offset by higher operating costs due to COVID-19 related impacts such as supplier claims.

42. In the longer term, Watercare is expecting decreases to its ongoing operating cost base through finding efficiencies. These targets reflect the findings of recent reviews and regulation changes over the last few years.

43. The favourable movement in Watercare's revenue and debt does impact the overall group position and has a positive impact on the council's debt to revenue ratio.

Updated capital programme

44. The draft budget signalled major challenges in the capital programme. Capital costs were expected to rise as a result of global supply chain constraints, limited access to skilled workforce and higher inflation levels.

45. The draft budget directed council's asset areas to manage cost increases within existing capital envelopes. This approach was expected to slowdown the capital programme as less projects could be delivered in a given year.

46. Since the draft budget, many of these trends have accelerated:
    - As discussed above, inflation projections have significantly increased above the draft budget's projections.
    - There are now additional risks in the supply chain with new factors such as the Russian invasion of Ukraine.
    - Negative net migration reducing access to skilled workers.

47. While the higher inflationary factors are projected to increase the costs of individual projects across the council group, the compounded supply chain constraints are expected to have significant impact on the council's ability to deliver the draft budget's capital programme.

48. These difficulties in delivery are already being felt in the 2021/2022 year. As at the end of quarter 3, only 74% of budget has been spent. In reviewing the capital programme for this budget, provisions have been made for the carry-forward of undelivered projects from the 2021/2022 year to the 2022/2023 year and beyond.

49. After reviewing expected delivery rates, the council is projecting to deliver $2.8 billion in the 2022/2023 financial year, down $174 million from the draft budget projections.

$million	2022/2023	2023/2024	2024/2025	Description
Draft budget capital programme	**3,002**	**3,171**	**3,084**	
Auckland Transport changes	(144)	(118)	37	Rephasing of overall programme based on deliverability
Auckland Council changes	(10)	(60)	(51)	Rephasing of overall programme based on deliverability
Eke Panuku changes	(9)	-	-	Rephasing of Transform and Unlock
Auckland Unlimited changes	31	1	(1)	Auckland Film Studios approved additional budget and SAAS impact
POAL changes	10	-	-	Carry forward from 2021/2022
Watercare changes	-	-	-	No projected change
CRL changes	58	42	(38)	Timing update
Timing adjustment	(110)	(78)	(25)	Timing adjustment for Auckland Council and Auckland Transport
Proposed capital programme	**2,828**	**2,958**	**3,006**	

50. Auckland Transport and Auckland Council will each carry an under-delivery assumption which means that the total size of the programme expected to be delivered will be less than the sum of the cost of individual planned projects. This will be carefully monitored during the year and if circumstances change and project delivery starts to trend materially higher than expected, then staff will report to the Finance and Performance Committee during the year with an assessment of overall group capex delivery rates and advise whether any further budget mitigation is required at that point.

Risk and uncertainty

51. The financial projections discussed above are based on a number of point estimates done at various stages in time across the budgeting process during January to May 2022.

52. Staff have endeavoured to get these estimates as accurate as feasible. However, the financial outlook remains highly uncertain and the final annual budget needs to be resilient enough to manage identified risks should they materialise. Many of these risks were previously identified in the draft budget but have begun to crystalise and move unfavourably.

53. Risks that could place additional pressure on the council budgets include:
    - Increased costs and investment demand as a result of climate change.
    - Further increases to inflation - an additional 1% of inflation could add around $20 million of net pressure, depending on how it flows through to specific cost and revenue lines.

- Further increases to interest rates - an additional 0.1% (10 basis points) increase on the interest rates faced by the council could add around $10 million of pressure.
- On top of general inflation, there may be additional escalation in various contracts when they renew, in cases where contractors are unable to absorb additional costs.
- COVID-19 related disruptions further impacting on the council's revenue streams while continuing to disrupt the supply chain.
- Other supply chain impacts, such as from the Russian invasion of Ukraine and the current COVID-19 situation in China, leading to higher capital costs and more delivery challenges.
- Cost increases for major capital projects – including CRL and Eastern Busway.
- Uncertainty around the delivery of government funding including Waka-Kotahi co-funding.
- Uncertainty in achieving existing savings and asset recycling targets.

54. Council staff will continue to monitor these risks and provide regular updates in future financial reports.

Appendix B3: Capital Prioritisation Framework

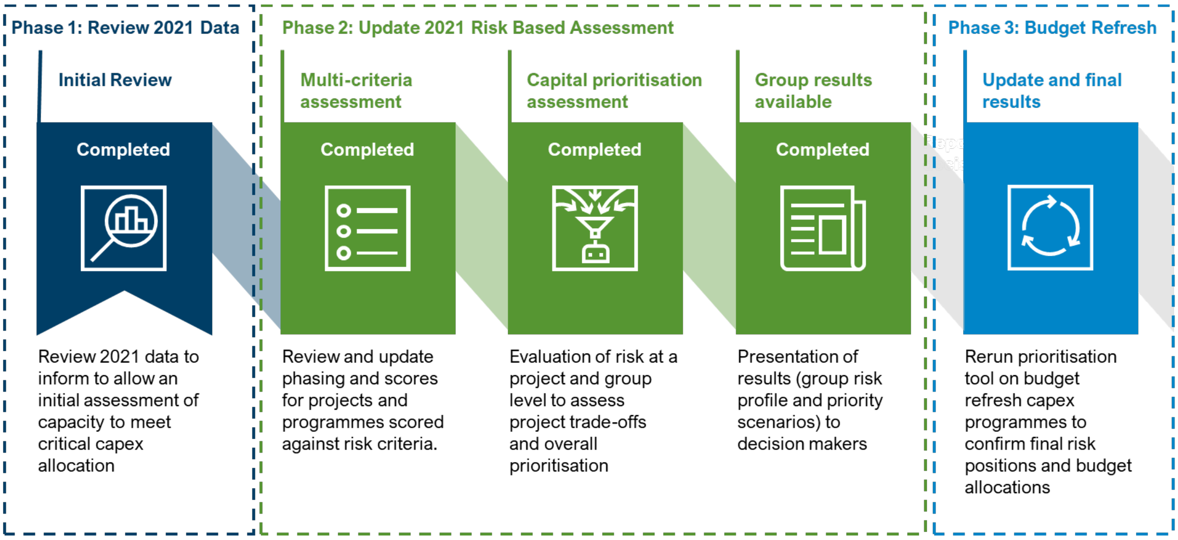
Purpose

1. To provide an update on the Capital Prioritisation Framework (the Framework) which was applied to support decision making for both the 10-year Budget 2021-2031 (LTP) and to the Annual Budget 2022/2023. A key focus of the Framework is identifying the risk impact of different investment scenarios.

Overview of the Framework

2. The process that was undertaken is outlined in Figure [1] below. The process was a collaboration with relevant SMEs to update their data to ensure the scoring was as robust as possible. A review of scoring was completed to ensure consistency across the group for assessing the risk of deferral or strategic misalignment.

Figure [1] – Capital Prioritisation Framework to Support the Annual Budget - Process and Methodology



Budget refresh

3. Through the Budget Refresh process, which commenced in January 2022, the Group's financial position was updated, including changes to operating expenditure and revenue, key assumptions (e.g. inflation forecasts) and updated operating and capital cost pressures. A detailed overview of the budget changes and pressures are detailed in Appendix B2: Budget refresh and analysis of changes.

4. Based on that analysis and more recent updates, the latest budget projections indicate the council could have enduring operating cost pressures in the range of $90 to $150 million per annum.

5. Staff have used the same Capital Prioritisation Framework used for the LTP to examine the trade-off between reducing capital investment to help mitigate the identified operating cost pressures, and the risk mitigation provided by that capital investment.

6. Risks have been reviewed and categorised under the framework as part of the Budget Refresh process. The risk categorisation is identified for the Group on Figure [2] and the budget intersection indicates the unfunded quantum in each financial year. The risk categorisation is identified for the Group excluding Watercare, Ports of Auckland and City Rail Link on Figure [3].

Figure [2] – Group View: Risk Categorisation in the Capital Programme under the 'Revised Budget' Scenario for FY23 (annual budget year 2022/2023), FY24 and FY25.

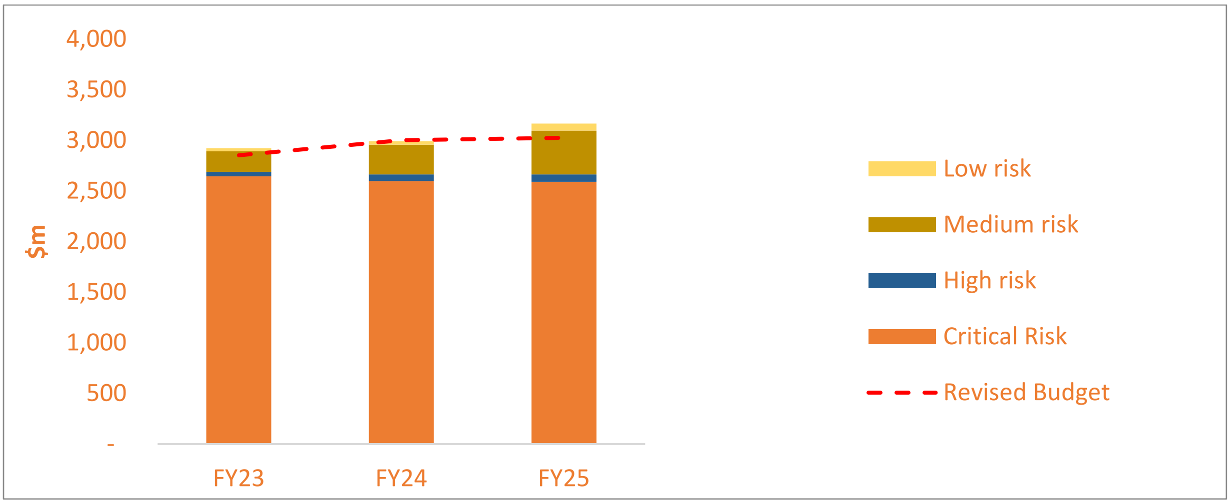
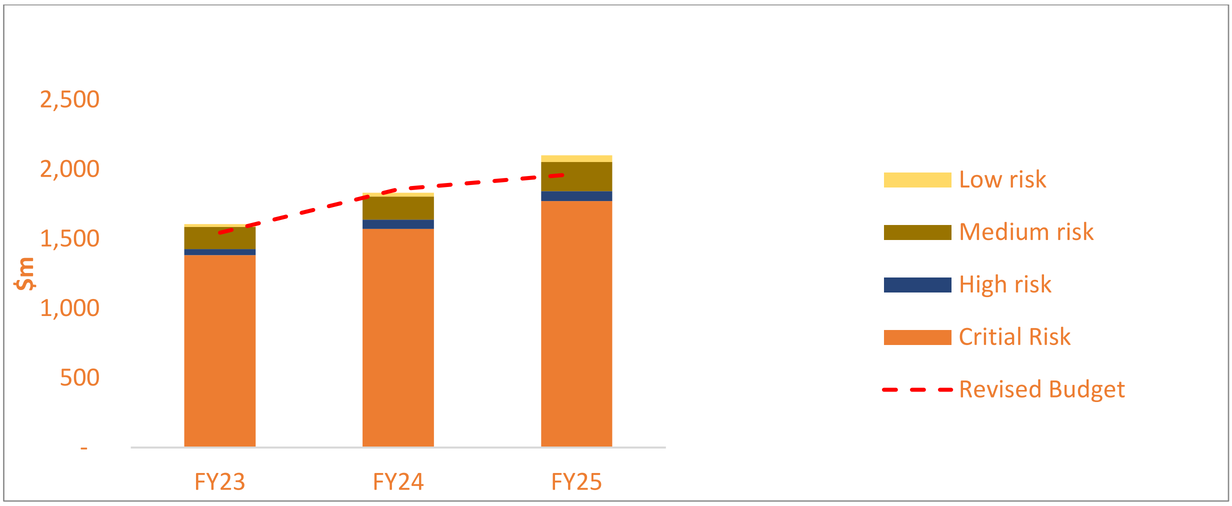


Figure [3] – Group excluding Watercare, Ports of Auckland and City Rail Link view: Risk Categorisation in the Capital Programme under the 'Revised Budget' Scenario for FY23 (Annual Budget year 2022-23), FY24 and FY25.



7. The results of the capital prioritisation work through the Budget Refresh process indicate that there are some medium and low risk projects funded under the revised budget scenario allocations. The lower risk scoring indicates that the risk associated with deferring these projects would be relatively lower than high and critical-risk projects.

Long-term capital deferrals

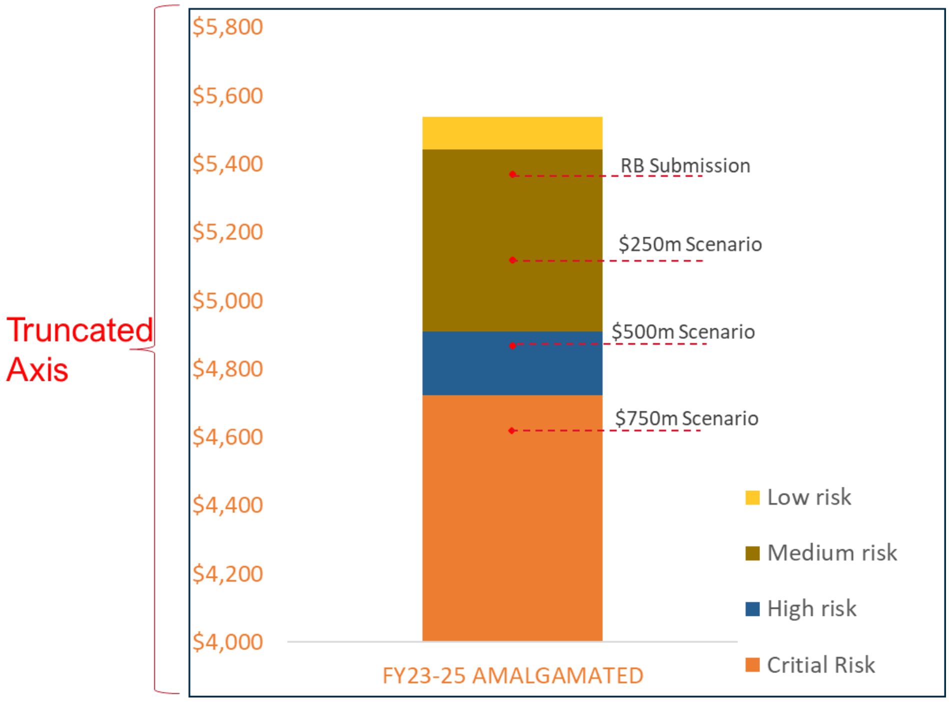
8. Staff propose a plan to help address the ongoing operating budget challenges that is based, in the first instance, on a combination of capital deferrals and service-level reductions to address the updated budget gaps.

9. The deferral of capital expenditure delivers consequential reductions in operating costs such as interest, running costs, maintenance, and depreciation.

10. Staff prepared three budget scenarios to demonstrate the trade-off between reducing capital investment to fund the identified operational cost pressures, and the risk mitigation provided by that capital investment. A summary of these scenarios is provided below.

11. Figure [4] provides an amalgamated view of the budget scenarios for FY23 (annual budget year 2022-23), FY24 and FY25. This clearly shows the intersection of the budget line with the risk should that scenario be pursued.

Figure [4] – Three Capital Deferral Scenarios for FY23-FY25 (amalgamated) Group excluding Watercare, Ports of Auckland and City Rail Link.



12. The three deferral scenarios considered were a reduction in capital budget by $250 million, $500 million and $750 million from the first three years (FY23 – FY25).

13. The findings were that the $750 million scenario requires the deferral of some “critical risk” projects, the $500 million scenario requires deferral of “high risk” projects and the $250m scenario requires deferral of only medium risk projects.

14. Table [1] shows the estimated saving of operational expenditure from the deferral of capital investment. These estimates were developed through the assessment of each asset owner. These estimated savings may need to be refined as the specific mix of deferred projects becomes better defined.

Table [1] –Capital Deferral Scenarios for FY23-FY25 and Estimated Operational Expenditure Savings for the Group excluding Watercare, Ports of Auckland and City Rail Link.

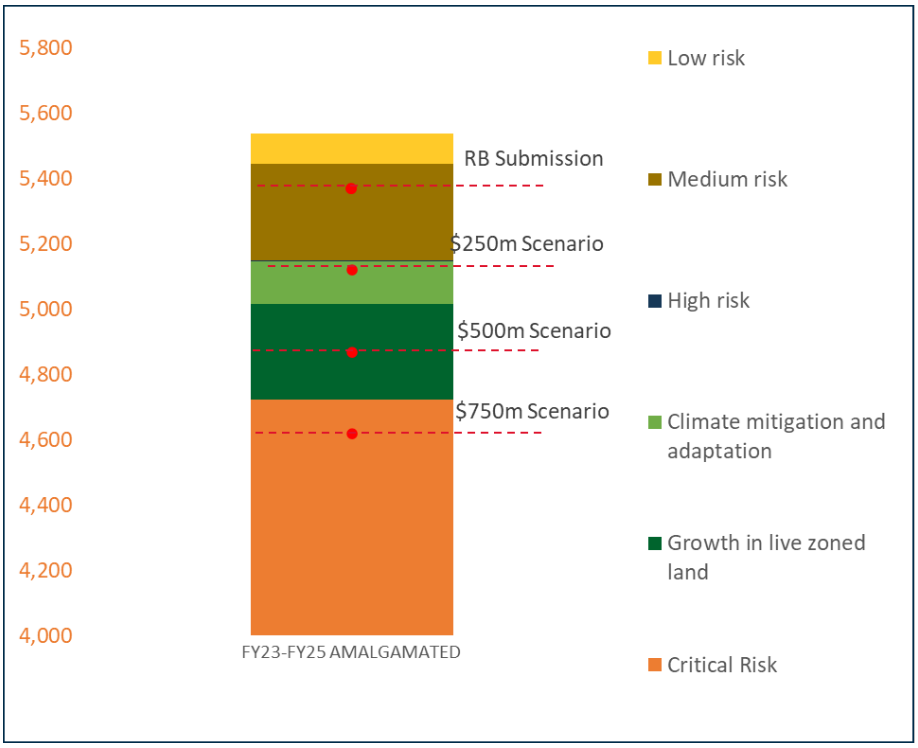
Capital investment deferral scenarios (FY23-FY25)	Indicative annual operational expenditure savings (once fully phased in)
$250M	$15M
$500M	$30M
$750M	$45M

15. The implications of capital investment deferral scenarios were further explored to understand, for example, the impact of these deferral scenarios on our Climate Change (mitigation and adaptation) and development outcomes.

16. Figure [5] shows that these deferral scenarios will have significant implications on meeting our strategic objectives. Projects that are not 'critical' but score well for climate mitigation and growth (specifically spatial priority areas and bulk infrastructure) are impacted in all three scenarios. However, this impact was relatively small for the $250 million scenario, and could potentially be avoiding by "fine tuning" this scenario at the more detailed level.

17. This quantum was approximately $400 million of investment that has high strategic alignment over and above what is considered critical. These strategic investments are shown in dark and light green respectively in Figure [5].

Figure [5] – Three Capital Deferral Scenarios and impact on Climate Change (Mitigation and Adaptation) and Development Outcomes for FY23-FY25 (amalgamated): Group excluding Watercare, Ports of Auckland and City Rail Link.



Implications of capex deferral scenarios by entity

18. Entity level targets for each of the three deferrals scenarios were developed based on the capex prioritisation risk assessment data. By using the risk assessment data to develop entity targets we avoided as much as possible the projects rated as “high” or “critical” being impacted.
19. The following table shows the targets for each entity under the three scenarios:

Entity	Deferral scenario		
	$250M	$500M	$750M
Auckland Council	$140M	$237M	$342M
Auckland Transport	$101M	$220M	$353M
Eke Panuku	$7M	$34M	$50M
Tātaki Auckland Unlimited	$1M	$9M	$11M

<u>Implications for $250m Scenario</u>

Entity	Impact of deferring $250m over the next three years
Auckland Council	• LTP discrete projects (e.g. Avondale community centre, Waikaraka Park, Ostrich farm & Purchase Hill development) • LTP specific purpose funds (e.g. Bellfield Rd encumbrance, SH16/20 & Lowtherhurst proceeds) • Growth projects slowed/paused, mainly impacting Metro Park West, prioritising Stage 1 Scott's point & KO/AHP priority areas • OLI projects deferred (i.e Ponsonby Park, Orewa Seawall & Flat Bush Multi-use centre) • Regional parks development (e.g. Te Arai, Mahurangi East & Muriwai access) • Land acquisition (e.g. open space) • LDI Capex initiatives • Built heritage protection fund
Auckland Transport	• Around 10% of renewals deferred • 30% deferred from the Connected Communities programme • 20-30% deferred across smaller programs • Deferrals in the Local Board Transport Capital Fund • Deferral of Matiatia and Papakura park and rides by one year • Half of CRL level crossing removal deferred • Glenvar Road deferred by one year • Lake Rd, Lincoln Rd delivered on a more realistic timeframe
Eke Panuku	• Transform and Unlock (Onehunga/Panmure acquisitions) • Waterfront (VOS shed slipway) • St Mary's Bay Beach
Tātaki Auckland Unlimited	• Legacy ATEED renewals (low risk)

Implications for $500m Scenario

Entity	Impact of deferring $500m over the next three years
Auckland Council	**Everything in $250 million and:** High priority climate projects including: • Slip mediation/prevention • Carbon emission reduction programmes • Seismic remediation works Contractual commitments including: • Further land acquisition Temporary reduction to critical levels of service including: • ICT business enablement • Regional coastal renewals • Regional parks & cemetery renewals
Auckland Transport	**Everything in $250 million and:** Higher reduction scenarios would result in longer deferrals and removal of certain projects and programmes within the 10-year LTP Completion of RFT projects may be pushed out beyond 2028 These scenarios need further modelling and trade-offs discussed with the AT Board, Council and Central Government funding partners
Eke Panuku	**Everything in $250 million and:** Waterfront: • East West connection public space • Wynyard Point open space • Westhaven North transformation • Harbour Bridge Park
Tātaki Auckland Unlimited	**Everything in $250 million and:** • Inability to proceed with Strategic initiatives (e.g. stadium master planning delivery or investment strategy) • Unable to progress Digital & ICT initiatives reducing ability to deliver new revenue opportunities • Deferral of Venue renewal programme, creating higher operational cost and accelerated deterioration of key assets • Art Gallery collection development deferral reducing revenue opportunities • Security infrastructure deterioration which significantly increases health & safety risks esp. Zoo perimeter security and Stadia

Implications for $750m Scenario

<table>
<tr><th>Entity</th><th>Impact of deferring $750m over the next three years</th></tr>
<tr><td>Auckland Council</td><td>Everything in $500 million and:
Further temporary reduction to critical levels of service including:
Local asset renewals
Regional asset renewals
Regional coastal renewals
Regional parks development</td></tr>
<tr><td>Auckland Transport</td><td>As per $500 million scenario:
Higher reduction scenarios would result in longer deferrals and removal of certain projects and programmes within the 10-year LTP
Completion of RFT projects may be pushed out beyond 2028
These scenarios need further modelling and trade-offs discussed with the AT Board, Council and Central Government funding partners</td></tr>
<tr><td>Eke Panuku</td><td>Everything in $500 million and:
Transform and Unlock
Further Onehunga/Panmure acquisitions
Waterfront
Westhaven Seawall upgrade
Wynyard Quarter Activation</td></tr>
<tr><td>Tātaki Auckland Unlimited</td><td>Everything in $500 million and:
Investment limited to critical safety failure only (consequent programme cost increases)</td></tr>
</table>

Appendix: Capital Prioritisation Framework Methodology

20. Under the Capital Prioritisation Assessment, each project was scored against an agreed set of criteria (refer to Figure [6] below). The criteria were developed to capture the broader range of potential risks (e.g. financial risks, environmental risks, social risks, asset failure risk, strategic alignment risks, etc.) and provide for a consistent risk evaluation across the Auckland Council Group.

21. An overview of the Criteria is provided in Figure [6] below, and the detailed criteria and rating definitions below.

22. The criteria were reviewed and updated during the Annual Budget 2022/2023 process. These updates were mainly minor text changes for clarity. Some of these changes enabled additional cost impact data to be collected (for example scale of cost escalations expected, and financial penalty of breaking a contract). We also added stronger links to existing frameworks such as existing asset criticality frameworks, Kia Ora Tāmaki Makaurau, and the Auckland Plan.

23. The most significant update was for the development outcomes where we were able to identify the spatial priority areas that were agreed through the 10-year Budget 2021-2031 and change the highest scoring definition from investments servicing live-zone land, to investments serving those specific spatial priority areas.

Figure [6] – Capital Investment Risk-based Assessment Criteria

Category	Risk Criteria	Explanation
Service Delivery	**Health and Safety**	Assessment of severity and probability of fatality/harm.
	Contractual	Spectrum from 'in construction' to 'not committed'. Public commitments assessed but would score relatively low.
	Legal	Timeframe for compliance and availability of a mitigation considered, includes consent conditions.
	Level of Service	Considered whether the reduction in service level is permanent or temporary, and the extent of public acceptability.
	Critical Asset Renewal	Probability, severity, and time to failure considered.
Financial & Revenue	**Revenue**	Extent of external revenues.
	Funding	Quantum of external funding and extent it is committed.
	Cost	Probability and quantum of consequential capex/opex if deferred.
Strategic Alignment	**COVID Recovery/Community Outcomes**	Extent to which the investment delivers on strategic outcomes agreed for the emergency budget 2021 and Community Outcomes as outlined by the Auckland Plan 2050.
	Māori Outcomes	Extent to which the investment delivers on the Kia Ora Tāmaki Makaurau framework.
	Climate Outcomes: Mitigation	Extent to which the investment contributes to a reduction in emissions. Spectrum from improvement to decline.

Category	Risk Criteria	Explanation
	Climate Outcomes: Adaptation	Extent to which the investment contributes to adaptability/resiliency to climate change. Spectrum from increase to decrease in resilience.
	Environment Outcomes	Extent to which the investment improves ecosystem health. Spectrum from improvement to decline.
	Development Outcomes	Alignment with Spatial Priority Areas and live zoned land.

24. Asset managers from each of the Council-controlled Organisations/Council Divisions were responsible for updating the scoring for each of their investments between one and five against each of the criteria to reflect the magnitude of the associated risk. The criteria were designed to capture each of the dimensions of the associated risk (e.g., the critical renewals criteria assessed both the likelihood of failure and the estimated impact of a failure).

25. Auckland Council staff then reviewed the scoring for each project to ensure a consistent scoring approach was used across the Auckland Council Group.

26. A 'total risk score' was calculated for each investment, based on the sum of its scores against each of the criteria.

27. To reflect the severity of some risks (i.e. Health & Safety), projects that scored highly against the following criteria were treated as critical risks and given the highest total risk score, irrespective of how they scored against the other criteria:
    - Health & safety risk (score of 4 or 5);
    - Contractual risk (score of 5);
    - Legal risk (score of 4 or 5);
    - Level of service (score of 4 or 5); and
    - Critical asset renewals (score of 4 or 5).

Detailed Risk Criteria

Risk Criteria	5	4	3	2	1
Health and Safety *- risk to the health and safety of persons*	Investment includes mitigation of H&S risk where >1 **fatality** is probable (i.e. with a likelihood of 21% - 60% within 12 months, or **once in 3 years**).	Investment includes mitigation of H&S risk where >1 **considerable harm/illness** incident is probable (i.e. with a likelihood of 21% - 60% within 12 months, or **once in 3 years**).	Investment includes mitigation of H&S risk where >1 **considerable harm/illness** incident is possible (i.e. with a likelihood of 6% - 20% within 12 months, or **once in 5 years**).	Investment includes mitigation of H&S risk where >1 **harm/illness** incident is possible (i.e. with a likelihood of 6% - 20% within 12 months, or **once in 5 years**).	Investment does not include mitigation of H&S risk.

Risk Criteria	5	4	3	2	1
Contractual - *risk of breaching contractual obligations on committed and inflight projects*	Investment is in construction.	Investment is contracted and a financial penalty will be incurred to pause *(enter penalty details under Financial risk - cost of deferral).*	Investment is in procurement phase **but could be paused or stopped**.	Investment is in dependent phase (without consecutive stages, no benefit if realised) or publicly committed.	Investment is not contracted or committed.
Legal - *risk of statutory timeframes or other legal obligations not being met*	Investment prevents legal action being taken (abatement notices, infringement notices, enforcement orders, and successful prosecutions).	Investment is driven by statutory timeframes and no mitigation available (i.e. building sales).	Investment is driven by statutory timeframes and mitigation is available (i.e. building sales)	Investment is driven by a legal obligation with an extended timeframe (i.e. >3 years to comply).	Investment is not driven by any legal obligation.
Level of Service - *risk to current levels of service*	Permanent reduction to existing levels of service and not considered acceptable to the community.	Temporary reduction to levels of service and not considered acceptable (can be achieved within 3 years).	Permanent reduction to existing levels of service and considered acceptable to the community.	Temporary reduction to levels of service and considered acceptable (can be achieved within 1 year).	Investment does not impact levels of service.
Critical Asset Renewal - *risk of critical asset failure*	Critical asset failure probability 21-60% within 12 months; or once in 3 years, and/or population affected >100,000. **OR** Investment, or programme of investments, scores 5 on the condition / age / criticality matrix (see attached).	Critical asset failure probability 21-60% within 12 months; or once in 3 years, and/or population affected >50,000. **OR** Investment, or programme of investments, scores 4 on the condition / age / criticality matrix (see attached).	Critical asset failure probability 6-20% within 12 months; or once in 5 years, and/or population affected >10,000. **OR** Investment, or programme of investments, scores 3 on the condition / age / criticality matrix (see attached).	Critical asset failure probability 6-20% within 12 months; or once in 5 years, and/or population affected >5,000. **OR** Investment, or programme of investments, scores 2 on the condition / age / criticality matrix (see attached).	Critical asset failure probability 0-5% within 12 months; or once in 10 years, and/or population affected >1,000. **OR** Investment, or programme of investments, scores 1 on the condition / age / criticality matrix (see attached) or investment is not related to renewals.
Revenue - *risk of impact on revenue*	Investment has external revenue streams, which deliver a short payback period	Investment has external revenue streams, which deliver a long-term payback	Investment generates external revenue sufficient to cover more than 50% of its costs, but does	Investment generates external revenue, which covers less than 50% of its costs.	Investment does not generate external revenue.

Risk Criteria	5	4	3	2	1
	(i.e. less than 3 years).	period (i.e. longer than 3 years).	not pay itself back.		
Funding - *risk of losing funding*	Investment has significant (i.e. more than 75%) committed funding (i.e. not Council).	Investment has significant uncommitted external funding (i.e. more than 75%) or moderate committed funding (i.e. 50%).	Investment has some committed funding (i.e. less than 50%)	Investment has potential to be externally funded but discussions are yet to be held with external parties.	Investment will be fully funded internally (i.e. by Council).
Cost - *risk of impact on costs*	High risk of significant additional costs (capex and/or opex) incurred relative to the value of the project if deferred (i.e. by 3 years): 50% or greater increase.	Moderate risk of significant, or a high likelihood of material, additional costs (capex and/or opex) incurred relative to the value of the project if deferred (i.e. by 3 years): 30%-50% increase.	Moderate risk of material additional costs (capex and/or opex) incurred relative to the value of the project if deferred (i.e. by 3 years): 15%-30% increase.	Limited risk of material, or a moderate risk of minor, of additional costs (capex and/or opex) incurred relative to the value of the project if deferred (i.e. by 3 years): 10%-15% increase.	Limited risk of incurring minor additional costs (capex and/or opex) incurred relative to the value of the project if deferred (i.e. by 3 years) - up to 10% increase (inflation).
COVID-19 Recovery / Community Outcomes - *strategic alignment risk*	Investment focuses on supporting 5-6 of the following: - Community connection and resilience - Physical activity or mental health - Communities of greatest need - Affordability - Skills for the future (workforce transition) - Business resilience and innovation	Investment focuses on supporting 3-4 of.	Investment focuses on supporting 2 of.	Investment focuses on supporting 1 of.	Investment does not contribute to community outcomes directly.
Māori Outcomes - *strategic alignment risk*	Investment has been developed in partnership with Mana Whenua and focuses on Māori outcomes as described in Kia Ora Tāmaki Makaurau (4 or more outcomes are addressed).	Investment has been developed in partnership with Mana Whenua and focuses on Māori outcomes as described in Kia Ora Tāmaki Makaurau (3 or more outcomes are addressed).	Investment has been developed in partnership with Mana Whenua and focuses on Māori outcomes as described in Kia Ora Tāmaki Makaurau (2 or more outcomes are addressed).	Investment has been developed in partnership with Mana Whenua and does not focus on Māori outcomes as described in Kia Ora Tāmaki Makaurau (1 outcome is addressed).	Investment does not focus on Māori outcomes as described in Kia Ora Tāmaki Makaurau (no outcomes are addressed).

Risk Criteria	5	4	3	2	1
Climate Outcomes: Mitigation - *strategic alignment risk* *Intent is for infrastructure owners to consider if their investment will affect Auckland's ability to meet its targets*	Investment significantly decreases Auckland's emissions over the lifetime of the investment (i.e. will contribute to a >50% emissions reduction against a BAU solution by 2030 and net zero by 2050).	Investment somewhat decreases Auckland's emissions over the lifetime of the investment (i.e. will contribute to a >20% emissions reduction against a BAU solution by 2030 and net zero by 2050).	Investment will have negligible or no impact on Auckland's emissions over the lifetime of the investment.	Investment increases Auckland's emissions over the lifetime of the investment (i.e. will result in a >5% increase in emissions against a BAU solution) or the impact on emissions has not been quantified.	Investment significantly increases Auckland's emissions over the lifetime of the investment (i.e. will result in a >20% emissions increase against a BAU solution).
Climate Outcomes: Adaptation - *strategic alignment risk*	Investment increases adaptability and resilience to climate change for our communities of greatest need (see attached).	Investment increases adaptability and resilience to climate change.	Investment will have little or no impact on adaptability and resilience to climate change and is not targeted at our communities of greatest need.	Investment decreases adaptability and resilience to climate change.	Investment decreases adaptability and resilience to climate change for the most vulnerable communities.
Environment Outcomes - *strategic alignment risk* *State = structure (size and components) of the ecosystem. Quality = ecosystem function.*	State and quality of multiple ecosystems (terrestrial, freshwater, and/ or marine) is improved.	State and quality of an ecosystem (terrestrial, freshwater or marine) is improved.	State and quality of an ecosystem (terrestrial, freshwater or marine) is maintained, or the investment has no environmental impact.	State and quality of an ecosystem (terrestrial, freshwater or marine) is degraded, but impacts are remedied or mitigated.	State and quality of an ecosystem (terrestrial, freshwater or marine) is degraded, with no remedial or mitigation measures taken/possible.
Development Outcomes - *strategic alignment risk* *A map of Spatial Priority Areas is provided*	Investment services the Spatial Priority Areas where they are within a focus area for the next 10 years or live zoned. This can include both bulk and local infrastructure.	Investment enables bulk infrastructure or is of regional benefit required to service live zoned land.	Investment provides a solution to service live zoned land (e.g. local infrastructure upgrades).	Investment contributes to planning and design to service future sequenced development when and where it is anticipated (i.e. Future Urban Zone).	Investment supports/ enables out of sequence land development (e.g. investment supports development that contradicts the timing of the Future Development Strategy)

Appendix B4: Service Prioritisation

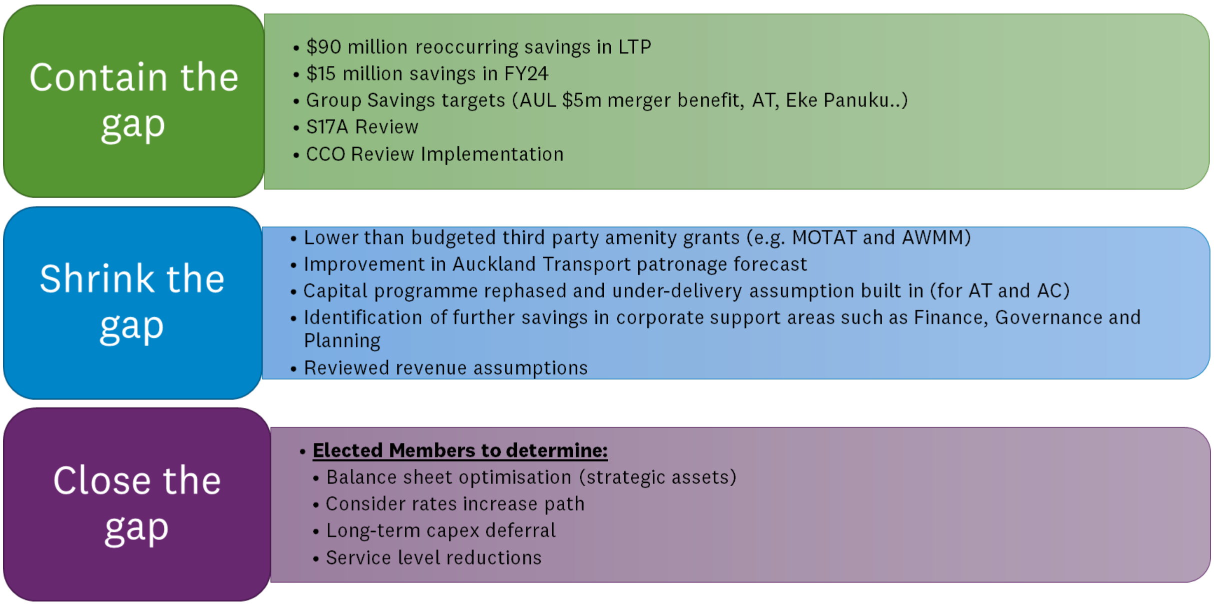
Purpose

1. To provide an update on the service prioritisation framework and the approach to using service prioritisation to help address the operating budget gap as outlined in the consultation document for the Annual Budget 2022/2023.

Savings Story at Auckland Council

2. In the 10 years following amalgamation, Auckland Council has made over $2.4 billion in operating savings. In the current financial year up until the end of March 2022, a further $84 million has been achieved in savings, of which $52 million will provide on-going benefits in future financial years. If these savings had not been achieved, then rates would be 14% higher (as at 2021).
3. It is becoming increasingly difficult to find on-going savings following the reductions already made since amalgamation. This is further complicated by the post-pandemic economic climate which is resulting in rising inflation.
4. Figure [1] below shows the efforts that have been made to reduce the operating budget gap caused by rising costs. Staff are seeking to contain the gap through existing and new savings targets, reducing operational costs and further closing the gap through decisions that will be made in the Annual Budget 2022/2023.

Figure [1] – Auckland Council Mitigation work underway (or already complete)



Service prioritisation framework

5. Service reviews are one of the levers available to help close the gap over time.

6. In the Consultation Document for the Annual Budget 2022/2023, the council proposed a service prioritisation framework (Figure [2]) to assist with focusing on the high priority services and how the service should be delivered (e.g., do more, less, or do differently). This framework was developed to help meet savings targets. The draft budget consulted on included $15 million for years 2023/2024, increasing to $30 million for years 2024/2025 in service reductions.

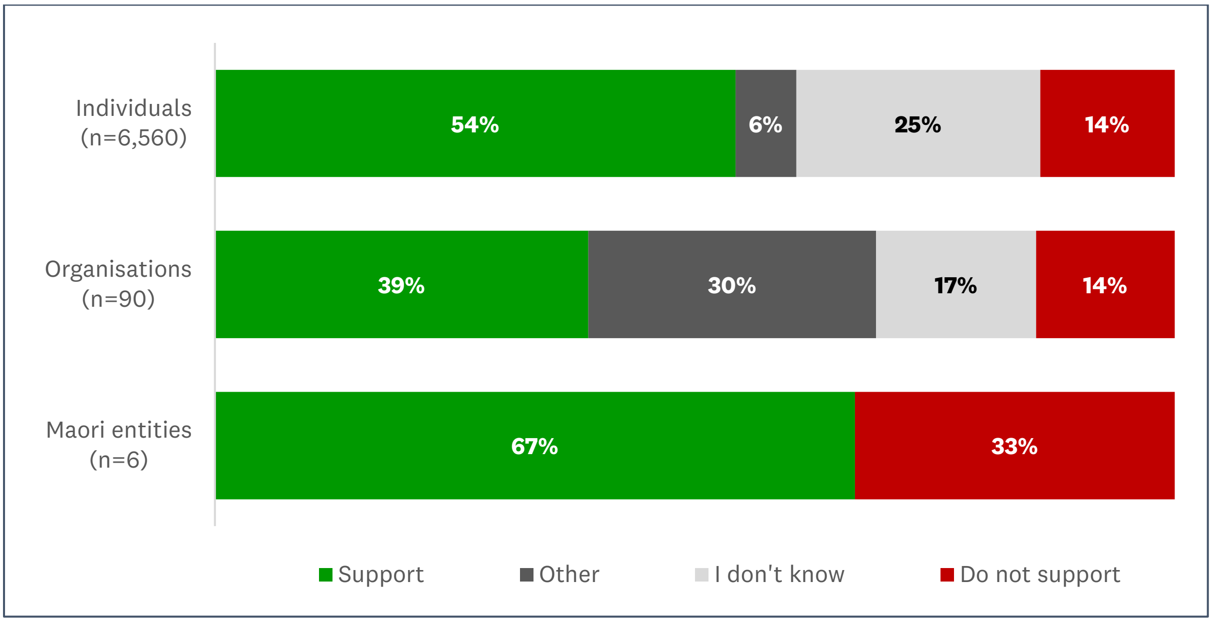
Figure [2] – Service prioritisation table included in Annual Budget 2022/2023 consultation

WHAT ARE THE THINGS THAT WE:

	must do?	should do?	could do?	won't do?
These are things that	• are required by law (including our legal obligations to Māori) • are essential services	• deliver on key priorities like climate action, transport, the environment and community development	• mitigate key risks • provide additional/ improved services for our customers and communities	• don't align to key priorities • don't deliver value • can be provided just as well by others
How we will prioritise	We will do these first	We will do these to the extent that we can afford to	Of these, we will do the things that deliver the most value or reduce the most risk	We will look to stop doing these
Opportunities to improve value for money	• Should we do more / less? • Could we do this differently? • Can we do this better? • Can we partner with someone else to get better outcomes?			• Stop • Phase out • Leave to others

Note: This table sets out proposed principles and criteria only. There are no actual proposals to make changes to any specific services at this time.

7. Feedback from the annual budget consultation indicated a level of support of 54% when asked about how we propose to choose which services to reduce, stop or change. A summary of the results is provided below.



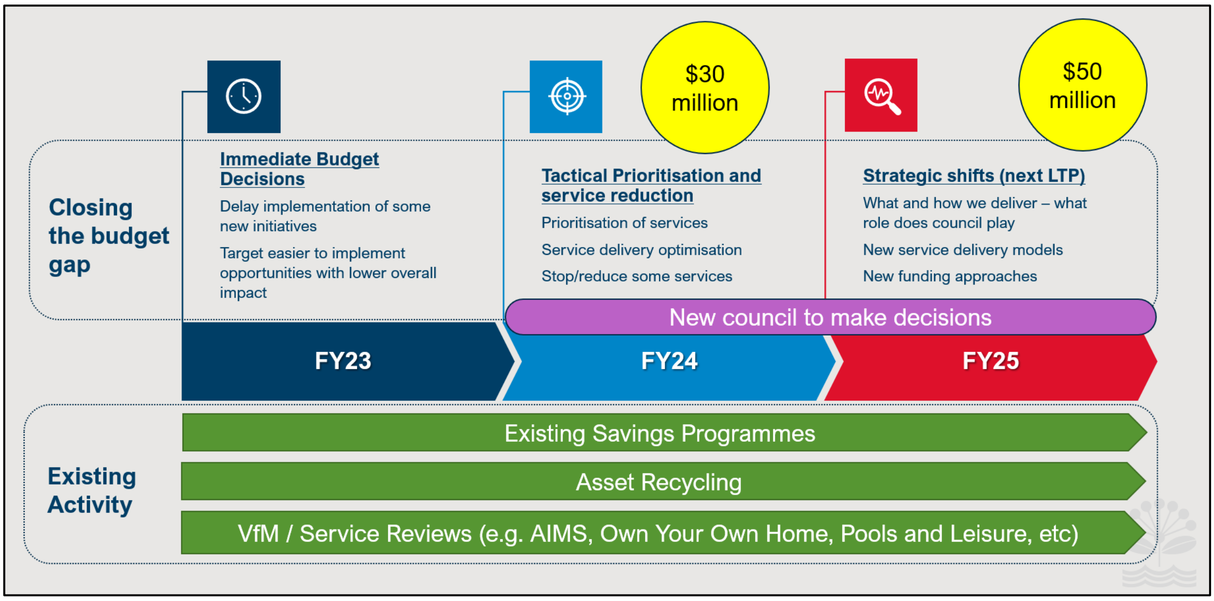
8. The general feedback from individuals in support was that the prioritisation matrix was pragmatic and makes sense. They wanted to keep certain services, such as climate change initiatives and transport improvements. Those that did not support or did not know, wanted other revenue sources to deal with the budget deficits or had concerns about whether the right services and resources would be prioritised.

9. Further analysis of public feedback on this matter is included in an attachment to the Overview to decision-making repot on this agenda.

Service prioritisation implementation

10. A multi-year approach is required to address the ongoing operating budget gap. Tactical prioritisation and service reductions will be needed in year 2023/2024 with a strategic shift to the role that council should play in service delivery from 2024/2025 onwards. Equity for communities across Auckland will also be considered and included in the decision-making throughout the process.

Figure [3] – Roadmap to Service Prioritisation



Tactical service prioritisation opportunities

11. The first stage would look to implement $30 million of service level reductions from 2023/2024 through looking at how council optimises services using the themes below. This target is consistent with the proposed $30 million target as set out in the consultation document, although this may now need to be implemented one year earlier in response to the revised budget outlook.

12. Service review scenario themes:

    a. Delay, reduce or stop lower priority services

    - Services that are 'could' and 'won't' – look at alternative options for delivery
    - Services that have a low number of customers

b. Reduction of council roles as funder of other organisations
   - Services that are ‘could’ and ‘won’t’ – look at the options for funding
   - Organisations will need to rely on fundraising / other sources (trusts etc)
   - High impact to organisation but lower impact across community
   - Quicker and easier to implement

c. Optimisation of services (applies to all services)
   - Improve efficiency and effectiveness
   - Scope, scale and role for council
   - Business as usual – should be occurring anyway as business improvement

d. Consider new revenue opportunities
   - User-pays where beneficiaries pay for services
   - Consideration of the level of subsidy council provides for a service

13. Potential opportunities for the $30 million service reduction scenario by entity are shown below.

Figure [4] - Auckland Transport

Theme	Opportunity	Potential community impact
Optimisation of services	• Optimise **rail contracts** • Optimise **road maintenance programme**	• Delay of minor customer experience enhancement projects • Risk of reduced customer satisfaction
Other **optimisation activity**	• Consolidate **data centres**	• Continuation of efficiency activity with no community impact
Consider new **revenue opportunities**	• Review **rental income opportunities**	• Acceleration of commercial income with no community impact

Figure [5] - Tātaki Auckland Unlimited (TAU)

Theme	Opportunity	Potential community impact
Consider new **revenue opportunities**	• **Increase existing and introduce new fees and charges** across all facilities and activities • **Introduce new products and services across TAU** using the advantages of merging TAU assets and activities and using digital and ICT as enablers • Seek **co-funding** (government and beneficiary businesses) to continue regional tourism activity • Identification and implementation of **new industry funding tools (e.g. bed tax)**	• Equity and inclusion impacts • More attractive and exciting products • Increased funding/marketing of Auckland • Increased partnering and risk-sharing with hotels, suppliers and event promoters thereby growing the industry sector
Delay, reducing or stopping **lower priority services**	Defer some investment activities related to economic development, including programmes to attract film, foreign direct investment, and government investment	• Reduced visitor attraction activity leading to loss of wider economic stimulus • Slower post-covid regional economic recovery • Auckland less competitive attracting and retaining talent, foreign direct investment, visitors and students

Figure [6] - Eke Panuku

Theme	Opportunity	Potential community impact
Delay, reducing or stopping **lower priority services**	Delay or stop **urban regeneration activities** in some locations from the current programme chosen in consultation with elected representatives - Takapuna, Northcote, Henderson, Avondale, Panmure, Onehunga, Old Papatoetoe, Manukau, Pukekohe, Waterfront.	• Slower and no urban regeneration in some priority locations in Auckland. • Decreased leverage of existing infrastructure. • Slower progress in leveraging housing provision. • Decreased ability to market and sell Council-owned land in priority locations. • Increased risk for private sector developers. • Decreased town centre vibrancy and visitation • Reduction in the Council’s ability to reflect Māori culture in our natural and built form. • Reduction in the Council's ability to offer mana whenua iwi and community housing providers opportunities to purchase and develop council-owned land

Figure [7] - Auckland Council

Theme	Opportunity	Potential community impact
Optimisation of services	**Standardise, prioritise and reduce maintenance and servicing** of parks, sports fields, council facilities	• Risk of reduced customer satisfaction • Risk of facility deterioration • Risk of impact on non-rates revenue
Delay, reducing or stopping lower priority services	Delay implementation of next phase of **Governance Framework Review where there are cost implications**	• Risk to the implementation of LTP direction
Reduction of council role where funder of other organisations	Reduce **LDI funding**	• Risk of reduced community wellbeing / access / equity / satisfaction • Risk of impact on local economy
	Reduce **grants funding** from general rates	• Risk of reduced community satisfaction • Risk of failure of community organisations who rely on council funding
Delay, reducing or stopping lower priority services	**Reduction in community programmes (incl. educational, environmental, recreational)**	• Risk of impact to the environment • Risk of negative health impacts in the community • potential loss of shared outcomes, match funding and community investment
Optimisation of services	Prioritisation of **strategy and policy activity focusing on priority services**	• Risk to improvement of priority services
Optimisation of services	**Group:** • **Improving our Support Services (Group Shared Services back office)***	• Low community impact

*Noting this is part of existing savings targets and not part of the $30 million reduction

14. More detailed analysis of these initiatives would need to be completed by around November 2022 so that the new council can consider including them in the public consultation on the Annual Budget 2023/2024. There will be adequate time for public input to be considered and impacts worked through with local boards prior to final decision-making in May/June 2023.

Strategic Shifts (next Long-Term Plan)

15. The second stage would look to develop options to deliver around $50 million of cost reductions for 2024/2025 onwards as part of the new council preparing and agreeing the 10-year Budget 2024-2034.

16. The lead-time for these reductions will allow a more strategic approach to be taken. This approach could involve a systematic look at the services we provide to the community, how they are delivered and the role of council in delivering the services. The review of services can start now but will need to be continued by the new council and may involve extensive public consultation where appropriate before implementing any changes.

17. This process will likely require fresh thinking about these matters and may fundamentally challenge the status quo in some areas. It will require considerable elected member input and it may be an opportunity for the new council to clearly define what it considered to be its core role in the community and therefore what it considers to be core council services.

18. The council's Value for Money Committee would be well placed to assist with scoping this work and overseeing its progress.

19. Part of this work will likely be the continuation of the work that started with the Recovery Budget about delivering community services differently to better meet the current and future needs of our diverse communities.

20. The following diagram outlines some of the key questions that might be considered as part of this strategic review.

Figure [8] – Questions to be applied to council services

Decisions to be made

21. While decisions on the service changes discussed in this report will be matters for the new council to make via its annual and long-term planning processes, the nature of these changes is that very long lead-in time are required. It would be extremely difficult to consider all relevant views, make decisions and then implement these kinds of changes all within the space of a few months.

22. To ensure that the new council is in the best possible position to consider using this option (alongside considering all other available choices) to mitigate the operating budget challenge it is recommended that the Governing Body considers making the following decisions as part of its decision-making on the Annual Budget 2022/2023,

    - Approve the use (and ongoing improvement) of the prioritisation framework and the general approach to service prioritisation
    - Agree that staff begin investigating tactical service reduction opportunities (around $30 million) for consideration by the new council as part of the Annual Budget 2023/2024
    - Agree that staff begin considering further strategic service reduction opportunities (around $50 million) for decision-making by the new council as part of the 10-year Budget 2024-2034
    - Agree that staff report to the Value for Money Committee on scoping the strategic opportunities.

Appendix C: Mayoral Proposal scenario

The budget numbers below align with the recommendations in the Mayoral Proposal and remain draft until final budget decisions are made.

The capex programme is also draft until final decisions are made, including by Local Boards regarding their work programmes for 2022/2023.

Draft Budget by organisation 2022/2023

$ million	Operating		Capital	
	Direct expenditure	Direct revenue	Capital investment	Capital revenue
Auckland Council	1,524	550	590	42
Customer and Community	626	106	259	30
Infrastructure and environmental	291	45	213	12
Auckland Council others	606	400	118	-
Auckland Transport	1,123	735	857	428
Eke Panuku	85	60	75	
Tātaki Auckland Unlimited	202	74	78	23
Watercare Services Ltd	348	926	715	
Ports of Auckland	180	291	80	
CRL Limited			514	
Capital timing adjustment			(110)	
Total	**3,462**	**2,636**	**2,799**	**493**

*Note: Inter-entity eliminations are not shown on this page
*Direct revenue and expenditure relates to activity from day-to-day operations and excludes accounting and finance factors such as depreciation, interest, vested assets and rates income.

Draft 2022/2023 capital programme

Group overview

Programme/Project ($m)	2022/23 budget
Auckland Transport	857
City Rail link investment (AC share)	514
Transport	**1,371**
Watercare	715
Stormwater	132
Water supply, wastewater and stormwater	**847**
Parks and community	**259**
Eke Panuku Development Auckland	75
Development Programme Office	33
City Centre and Local Development	**107**
Waste Solutions	20
Environmental Services	9
Engineering & technical services	20
Regulatory Services	2
Environmental Management and Regulation	**51**
Economic and Cultural Development	**78**
Council corporate support	116
Ports of Auckland	80
Council Support	**196**
Capital timing adjustment (Auckland Transport and Auckland Council)	**(110)**
Total Group	**2,799**

Draft Transport capital programme

Programme/Project ($m)	2022/23 budget
Asset Management (Renewals)	223
Network renewals	**223**
Eastern Busway	136
Climate Action Targeted Rate Programme (including Ferries and Cycling)	15
Ferry investment not funded by CATR	26
CRL Day One - Level Crossing Removal	4
Public Transport Safety, Security and Amenity	12
Rapid transit and ferry	**193**
Lincoln Road Corridor Improvements	8
Lake Road/Esmonde Road Improvements	1
Connected Communities	21
Midtown Bus Improvements	1
Urban Cycleways Programme	46
On-going Cycling Programme	2
Corridors and places	**80**
Hill Street Intersection Improvement	1
Safety Programme	57
Minor Improvements	6
Local Board Initiatives	10
Local safety and amenity	**75**
Supporting Growth - Post Lodgement and Property	6
Customer and Business Technology	20
Other projects and programmes	260
Other	**286**
Auckland Transport[1]	**857**
City Rail link investment (AC share)	**514**
Transport	**1,371**
Note 1: Under-delivery assumption of $85 million not shown in these figures.	

Draft Water Supply, Wastewater and Stormwater capital programme

Programme/Project ($m)	2022/23 budget
Waikato A Water Treatment Plant	2
Wellsford water supply	3
Other water treatment programmes	4
Local Water Network Renewals	18
Huia 1 and Nihotupu 1 Watermain Replacement	32
North Shore boost pumping	2
Redoubt Road Reservoir complex expansion	20
Pukekohe water supply	6
Other water networks programmes	29
Water supply	**117**
Central Interceptor	281
Local Sewer Network Renewals	7
Northern Interceptor	6
Southern Interceptor Augmentation	29
Western Isthmus Programme	12
Otara catchment upgrades	11
North Shore trunk sewer and pump station upgrades	36
Other wastewater network programmes	58
North East Sub-regional Wastewater Servicing	57
South West Sub-regional Wastewater Servicing	21
Rosedale WWTP Upgrade	49
Electrical Systems	3
Waste water treatment other programmes	17
Wastewater treatment	**588**
Shared service programmes	10
Watercare	**715**
Renewals	44
Growth	22
Flooding control	19
Environmental mitigation	2
Catchment & Asset Planning	12
Water quality improvement	33
Stormwater	**132**
Water Supply, Wastewater and Stormwater	**847**

Draft Parks and Community capital programme

Programme/Project ($m)	2022/23 budget
Renewals - Local	100
Renewals - Regional	12
Growth - Land Acquisition	37
Growth - Development	9
Regional Development	4
One Local Initiatives (OLI)	11
Libraries	14
Co-governance - maunga and parks	16
Locally Driven Initiatives (LDI)	4
Coastal Renewals & Slips	7
LTP Discrete Projects (incl. climate response sustainability)	15
LTP Specific Purpose Funds (incl. Te Whau pathway and social housing renewals)	19
Arts and culture	1
Other projects	8
Pools and leisure centre	1
Parks and Community[2]	**259**
Note 2: Under-delivery assumption of $25 million not shown in these figures.	

Draft City Centre and Local Development capital programme

Programme/Project ($m)	2022/23 budget
Renewals	8
Transform and unlock locations	37
Waterfront	21
Development	9
Eke Panuku Development Auckland	**75**
Victoria Street Linear Park	8
City Centre Targeted Rate funded initiatives	17
Tamaki Transformation project	6
Town Centre Revitalisation	1
Other (including climate change response)	1
Development Programme Office	**33**
City Centre and Local Development	**107**

Draft Environmental Management and Regulation capital programme

Programme/Project ($m)	2022/23 budget
Waste service bins	1
Food scrap service bins	7
Refuse transfer centre & other	0
Climate change response (Zero Waste Auckland) / Shovel Ready Resource Recovery Network	11
Waste Solutions	**20**
Natural environment and climate change response programme	9
Environmental Services	**9**
Closed landfill and coastal landfill remediation	14
Response to natural and coastal hazards	6
Engineering & technical services	**20**
Regulatory	**2**
Environmental Management and Regulation	**51**

Draft Economic and Cultural Development

Programme/Project ($m)	2022/23 budget
Auckland Zoo Renewals	12
Film Studios construction	20
Maritime museum	1
Auckland Live and Other facilities	4
Auckland Stadiums	11
Auckland Art Gallery	16
Aotea Centre	5
Corporate support projects	3
Visitor security	4
Technical Equip Renewal	1
Other renewals	1
Economic and Cultural Development	**78**

Draft Council Support capital programme

Programme/Project ($m)	2022/23 budget
Corporate property	40
Information and communications technology	21
Other support areas	55
Council corporate support	**116**
Ports of Auckland	**80**
Council Support	**196**