

Mayoral Proposal for the Annual Budget 2023/2024

15 December 2022

Our Context and Challenge

1. The financial context in which we find ourselves means we have a \$295 million shortfall in terms of funding the activities we had planned for the 2023/2024 financial year in the Long-term Plan [2021-2031] (LTP).
2. While the previous [2022/2023] council budget had signalled there was a potential shortfall of between \$90m and \$150m, this gap has widened due to factors outside the control of council.
3. This is largely the result of the ongoing impacts of persistently high inflation and the rapid increase in interest rates. Some of the pressures are enduring/structural, and this requires us to look closely at our ongoing cost base, both in council and in Council Controlled Organisations (CCOs), to ensure we have a sustainable and credible plan going forward.
4. If we don't take bold action now, Aucklanders face the unpalatable prospect of over 13% increase in rates in the middle of a cost of living crisis.

Objectives

5. My ultimate objective is to have a balanced budget for the 2023/2024 financial year. Alongside that, council also needs to achieve:
 - A prudent and sustainable financial path going forward – there will be more hard decisions to be made in the LTP, and this year's annual plan needs to put us in a good place to make those decisions.
 - Minimising the financial impact on households during a cost of living crisis.
 - Reduction in operating costs and maximising revenues, both in council parent and CCOs, to ensure that the council group is focused on those activities that matter most to our communities and delivering value for money/cost effectiveness

Options for achieving objectives

6. There are a number of tools that can be used to get us to a balanced budget for 2023/2024. We will need to use a mix of these available tools in order to meet our challenge and get us on a path to a financially sustainable long term plan.
7. The tools that I propose to use to meet our financial challenges include:
 - Decrease costs:
 - i. Reduce operating costs (both council parent and CCOs)
 - ii. Reprioritise capex to save on operating costs
 - A general rates increase at or below inflation (but with mitigations to minimise impacts to households)

- Increase revenue:
 - i. Sell assets where we have little control on future returns
 - ii. Increase returns from those assets that we have control over
- Prudent use of debt (within policy limits set out in the LTP)

Proposal

8. My proposal for consultation on the Annual Budget for the 23/24 financial year is to use the following mix of [tools/levers] that I consider will best achieve our objectives.

Operational cost savings at Council parent organisation

- **\$60m** in operational savings on top of the **\$33m** existing savings in the current financial year.
- Looking for sustainable cost savings from stopping or doing services differently with a long term view to further changes through the LTP.
- Leveraging central government investment into social services being delivered by council that should be delivered by central government, including the funding for COMET.
- Review of governance support to Local Boards and how this can be better delivered to reduce duplication and give Local Boards more direct control over how this is provided, while delivering savings to council in this budget.
- A contribution by Local Boards to the budget challenge by way of a 5% reduction to overall Local Board funding in 2023/2024, the way in which this will be achieved is to be determined collectively by all Local Boards.

Operation savings at Council Controlled Organisations (CCOs)

- Auckland Transport (AT) – **\$25m** of operational cost savings that has been proposed by AT – without making cuts to Public Transport services.
- Tataki Auckland Unlimited (TAU) – **\$25m** of operational cost savings that has been proposed by TAU – with a further **\$2.5m** by reducing some Economic Development and Destination activity that provide limited benefit to council with a view to long term changes in the way these services are delivered and who pays for them.
- Eke Panuku - **\$5m** of operational cost savings that has been proposed by EP – and look to deliver urban regeneration activity in a way that provides for local project governance.
- I want group shared services implemented by FY23/24 to eliminate duplication and deliver more efficiencies between council, AT, Eke Panuku and Tataki Auckland Unlimited. This includes ICT, insurance, fleet, corporate accommodation costs, HR, procurement, call centres and other “back office” functions that should be shared across the council group.
- I also want to see a substantial reduction in the duplication and proliferation of strategies, policies and plans across council group and Local Boards to save money, particularly on those things that don’t have any funding.

Further operational savings

- I will be requesting council's Expenditure Control and Procurement Committee to identify, through their work programme for the 2023/2024 budget:
 - a further \$7.5 of operational costs savings from AT; and
 - A further \$5m of operational cost savings from council and the other CCOs.

Rates

- I recognise that Aucklanders are living through the worst increases in the cost of living in decades. I don't want to add to this burden but we need to increase our general rates to strengthen council's revenue base.
- The impacts of inflation and interest rates are compounding. This means it is more expensive to deliver our services and if we do not respond to these factors with a rates increase, there will be a reduction in the services we deliver. Doing nothing will increase the likelihood of large rate shocks in the future.
- I am proposing a package of rates changes that will result in a total rates increase for the average household of only 4.66% or \$153 a year [around \$3 a week].
- My intent is for a general rates increase of 7% (which is above the 3.5% increase signalled in the current LTP). However, taking into account the cost of living crisis, I am proposing that we mitigate the effect of this general rates increase by reducing the following targeted rates by two thirds in the 2023/2024 year:
 - Natural Environment Target Rate (NETR)
 - Water Quality Targeted Rate (WQTR)
- I am also proposing to pause the long-term differential strategy for business rates for the 2023/2024 year.
- The combined effect of these changes is to ensure the total rates impact to the average household in Auckland is only 4.66%. This is a lot less than the rate of inflation and even less than the average rates increase in 2022/2023 of [5.2% when you take into account the introduction of the Climate Action Targeted Rate]
- But don't worry, the activity under NETR and WQTR won't stop. We have reserves in those targeted rate funds to carry on the planned activity for the 2023/2024 year.
- We will achieve this rates balancing by using the other tools that I am proposing like reducing council group's costs in a substantial but sustainable way.

Auckland International Airport Limited (AIAL) Shares

- I want to change the AIAL shareholding policy to permit the sale of the shares.
- I believe that the council needs to commit to a full sale of its 18.09% (currently) shareholding in AIAL and consider repayment of debt as a prudent thing to do considering the current financial challenges facing council.
- Based on the current share price, this would realise approximately \$1.9b that must be used to reduce council's debt.
- Selling and paying down debt makes sense as it will save the equivalent of \$88m per annum in interest costs and make a permanent improvement to council's balance sheet and reduce long term risk
- Council has effectively been paying \$240m in interest for an investment with zero returns over the last 3 years.
- This will also leave debt headroom for any future capex requirements

Ports of Auckland Limited (POAL)

- I expect POAL to increase their promised \$21m dividend to council in FY2023/2024 by at least \$10m, if not more, and improve their returns to council as their 100% shareholder.

Debt

- It is prudent of council to ensure that we have the ability to manage any risks of under delivery on the other tools by leaving some ability for council to use short term debt to meet any shortfall in the 2023/2024 budget.
- I am proposing that we allow for a maximum of \$75m of short term debt to meet any shortfall. My intent is that we only use debt if we need it.
- If our debt is reduced by \$1.9b, this will create the headroom to manage any unknowns or further deterioration of council's financial outlook that I have been worried about for some time.

Consultation

9. Through consultation we will explain the implications of my proposal as well as what it would mean if we were to use the tools either more or less than what I am proposing.
10. There is significant economic uncertainty at the moment and there is a possibility that our financial challenge may change. We will need to be clear in consulting with Aucklanders that we may need to use certain tools or levers more or less when making final budget decisions.
11. This is a credible plan that I am confident we can achieve and set the council on a path to long term financial sustainability as well as doing those things Aucklanders really want.

Long-term Plan

12. This budget proposal aims to solve our financial issues for the short term. However, there are some solutions that will need more planning and will take more time to implement and I will be getting advice to introduce further changes for longer term savings through the Long-term Plan process.
13. These include:
 - Changes to council's and CCOs services and service levels.
 - Review and potential re-allocation of the activities performed by Eke Panuku.
 - Review of Economic Development, Destination and Events activity of TAU.
 - A strategic assessment of council's asset ownership. The council annual report identifies investment property and as a principle, council should only own assets which are directly used (or planned to be used) for the delivery of council services.
 - Selling of non-service assets that are performing poorly or underutilised
 - Review of Local Board funding and decision-making framework with a view to local boards taking accountability for asset decisions and their associated costs.