I hereby give notice that an extraordinary meeting of the Finance and Performance Committee will be held on:

**Date:** Wednesday, 22 May 2019  
**Time:** 9.30am  
**Meeting Room:** Reception Lounge  
**Venue:** Auckland Town Hall  
301-305 Queen Street  
Auckland

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**Komiti ā Pūtea, ā Mahi Hoki / Finance and Performance Committee**

**OPEN ADDENDUM AGENDA**

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**MEMBERSHIP**

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<th>Cr Ross Clow</th>
<th>Deputy Chairperson</th>
<th>Cr Desley Simpson, JP</th>
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<td>Deputy Chairperson</td>
<td>Cr Josephine Bartley</td>
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<td>Cr Penny Hulse</td>
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<td>Members</td>
<td>Cr Dr Cathy Casey</td>
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<td>Cr Mike Lee</td>
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<td>Deputy Mayor Cr Bill Cashmore</td>
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(Quorum 11 members)

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**Sandra Gordon**

Senior Governance Advisor

20 May 2019

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**Note:** The reports contained within this agenda are for consideration and should not be construed as Council policy unless and until adopted. Should Members require further information relating to any reports, please contact the relevant manager, Chairperson or Deputy Chairperson.
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9  Annual Budget 2019/2020 - Mayor’s final proposal  5
Te take mō te pūrongo
Purpose of the report

1. To set out the mayor’s recommendations for the final Annual Budget 2019/2020 for consideration and decisions by the Finance and Performance Committee.

Whakarāpopototanga matua
Executive summary

2. Auckland Council adopted the 10-year Budget 2018-2028 last year, which sets out a record $26 billion investment in areas that matter most to our community – transport, housing and the environment. 2019/2020 is the second year of the 10-year budget and the focus needs to be on delivering that ambitious programme.

3. Significant progress is being made in the areas of transport, housing and the environment. The capital investment will increase from $2.51 billion in 2018/2019 to $2.75 billion in 2019/2020. The record investment by the council and the government in the Auckland Transport Alignment Project (ATAP) is starting to roll out, for example the commencement of the $1.4 billion Eastern Busway. New housing consents in the latest year have reached an all-time record of 13,874. All council employees will be paid a living wage from 1 September 2019. Water quality improvements in our beaches have been brought forward by 20 years and the $1.1 billion central interceptor begins construction this year, which will have a dramatic impact on wastewater overflows and our waterways when complete. Much more remains to be done and we are continuing our discussions with central government for a joined-up approach and additional funding.

4. In early May 2019, the council approved an additional funding commitment of $500 million to continue the build of Auckland’s largest infrastructure project – the City Rail Link. The extra funding ensures the CRL is future proofed to carry the increased number of passengers, projected at over 54,000 per hour at peak times to use our trains, to ensure adequate contingency funding and to cover construction cost inflation. The council’s commitment was able to be made while maintaining its debt to revenue ratio below the council’s internal ceiling of 265 per cent over 10-year budget period and not adding any additional burden on the ratepayers.

5. The funding of the CRL has however removed capacity for funding major new initiatives for the next four years, as the debt to revenue ratio is projected to peak in financial year 2022/2023.

6. Despite these pressures, this mayoral proposal ensures we are continuing to move forward as a city which looks after our communities and our people.

7. New funding initiatives to ensure under-15s can travel free on public transport (PT) on the weekends and public holidays will benefit the young people of our city. The $5 million contribution to Auckland City Mission’s HomeGround project will mean the council can help in ensuring our most vulnerable are cared for. Funding will allow us to continue to tackle illegal dumping by those harming our environment.

8. All of these and other funding commitments will be delivered while keeping average general rate rises to 2.5 per cent next year, the lowest level for any growth or metropolitan city in New Zealand.
Ngā tūtohunga
Recommendation/s

That the Finance and Performance Committee:

a) note in respect of the 2019/20 Annual Budget the following items, which are consistent with the 10-year Budget 2018-2028:

i) an average general rate increase of 2.5 per cent.

ii) the increase to the Uniform Annual General Charge of 2.5 per cent.

iii) the reduction in the business differential continues.

b) agree to recommend to the Governing Body that the 2019/20 Annual Budget be based on the draft budget, adjusted for the updates set out in the staff reports, and incorporate the following changes and specific decisions:

Transport

i) agree an additional $12.2 million operational funding for Auckland Transport in 2019/2020 to address the cost pressures resulting from higher than forecast growth in public transport patronage and additional costs driven by changes to the Employment Relations Act.

ii) request Auckland Transport and Auckland Council to jointly investigate options to alleviate Auckland Transport’s future operational funding pressures and recommend a course of action as part of the Annual Budget 2020/2021.

iii) agree to the implementation of ferry fare integration from 1 February 2020 with additional annualised operational funding of $502,000.

iv) agree to the implementation of free weekend and public holiday travel via public transport for children between 5 to 15 years old from 1 September 2019 with additional annualised operational funding of $643,000.

Communities

v) agree a one-off $5 million contribution in 2019/2020 to the Auckland City Mission’s HomeGround project.

vi) agree an additional $1.5 million of capital funding be added to the un-allocated capital funding for One Local Initiatives in 2027/2028.

vii) agree an additional $8.9 million of capital funding to undertake landowner’s works at Colin Dale Park ($4.1m in 2019/2020 and $4.8m 2020/2021).

viii) agree an additional $200,000 per annum operational funding to support Auckland Citizens Advice Bureaux for 2019/2020 and 2020/2021, funded from existing budget.

ix) agree to $420,000 of operational funding in 2019/20 to undertake investigation and options analysis for the future of the central library, with this expenditure funded from existing budgets.

x) agree to $150,000 capital funding in 2019/2020 for signage within the Auckland Domain.

xi) agree a one-off operational grant to the Hibiscus Youth Centre of $100,000 in 2019/20, with this grant to be funded from existing budgets.

xii) request that the review of the council’s provision of financial support for youth centres, commissioned as part of 10-year Budget 2018-2028 decisions, report back to Environment & Community Committee by 31 March 2020.
Environment

xiii) agree to continue providing $200,000 per annum of operational funding to deal with illegal dumping, with this expenditure funded from existing budgets.

xiv) agree to $250,000 per annum of operational funding be transferred from Auckland Council parent to Auckland Transport to enhance graffiti eradication and prevention services along the rail corridor, with this expenditure funded from existing budgets.

Regional Facilities Auckland

xv) agree an additional $3.5 million of operational funding in 2019/2020 to meet the revenue shortfall resulting from business interruptions.

xvi) agree an additional $3 million capital funding and $800,000 operational funding in 2019/2020 for protective security at facilities managed by Regional Facilities Auckland.

xvii) agree to recommend to the Governing Body that a detailed assessment be undertaken to determine the protective security requirements across the Auckland Council group’s estate (including Regional Facilities Auckland) as part of the Annual Budget 2020/2021.

xviii) agree an additional $14 million of capital funding for the Aotea Centre refurbishment ($10 million in 2019/20 and $4 million in 2020/21).

xix) request the Chief Executive of Auckland Council to review the circumstances surrounding the revised cost of the Aotea Centre refurbishment.

Horopaki Context

9. Last year, Auckland councillors overwhelmingly supported our 10-year Budget 2018-2028. That budget set out the largest ever investment in Auckland’s infrastructure. It committed over $26 billion into transport, housing services, cleaning up and protecting our environment and expanding our parks and open spaces. It addressed years of underinvestment, which had contributed to transport congestion, housing shortages and unaffordability and some poor environmental outcomes.

10. While delivering record infrastructure investment, rates were limited to average general rates increases of 2.5 per cent over this term of council. That was made possible by efficiency gains, two targeted rates for water quality and environment enhancement which Aucklanders strongly favoured, and the regional fuel tax which secured additional matching government funding.

11. This year’s annual budget is the second year of the 10-year budget and moves further towards building the infrastructure our growing city needs. The council will focus on delivering the ambitious programme, by enhancing public transport services, delivering major transport infrastructure projects enabled by the regional fuel tax and central government subsidies, delivering the central interceptor and other water quality improvement funded by the Water Quality Targeted Rate, protecting Kauri from dieback disease and implementing the Regional Pest Management Plan funded by Natural Environment Targeted Rate.

12. In addition to these commitments, the council had to make a number of budget decisions since the adoption of the 10-year budget as new fiscal challenges arose, such as the 36th America’s Cup infrastructure, financial support to the Eden Park Trust and the City Rail Link (CRL) project cost reforecast. These decisions, particularly CRL, have significantly removed our funding capacity in the next four years, as the debt to revenue ratio is forecast to peak in 2022/2023.
13. CRL is the biggest transport infrastructure project for Auckland and New Zealand. The project cost was reforecast to be $4.4 billion through the procurement process, an increase of $1 billion from the 2016 estimate of $3.4 billion. With $700 million already invested in CRL, the project is critical to alleviating traffic congestion by doubling the capacity of commuting by rail in Auckland and with benefits estimated at $6.6 billion, it continues to have a strong benefit to cost ratio.

14. In May 2019, the council resolved to commit to funding its share of the increase at $500 million. This commitment is accommodated by treasury management initiatives, options around off-street parking assets and the timing of council’s contribution to CRL. The commitment would see the council’s debt to revenue ratio remains below the council’s internal ceiling of 265 per cent.

15. However, this also means that the council’s funding capacity is tightly constrained post CRL decision for the next four years. There is limited capacity to respond to any emerging cost pressures, new funding requests or external shocks. Meeting future financing and funding challenges will require alternative thinking and approaches such as broader non-rates revenue sources, special purpose vehicles or local targeted rates.

16. This mayoral proposal reflects the need for discipline and financial prudence, particularly over the next four years. It means some measures we would like to promote will have to be deferred until there is funding capacity. The modest scale of additional spending in Annual Budget 2019/2020 reflects this new reality. A range of funding requests necessarily need to be deferred and others will have to be met by offsetting savings or reprioritisation within the council group.

Tātaritanga me ngā tohutohu
Analysis and advice

17. I propose the following initiatives and budget items be included in the Annual Budget 2019/2020.

Better public transport

Auckland Transport operational cost pressure

18. Transport is one of the most important issues for Auckland, with the need to match new infrastructure to rapid population growth and improve transport options and choices for Aucklanders. In the past six years, there has been unprecedented growth in public transport (PT) patronage of 30 per cent, with a record level in the last year. The annual PT boarding is projected to reach 100 million by June 2019. The satisfaction with public transport remains high at 91 per cent.
19. Compared to the patronage assumption that underpins the 10-year budget for Auckland Transport, the current forecast shows a considerable uplift in FY19 and then a similar growth path thereafter.

20. Our success in PT patronage also creates a challenge. As patronage grows, the council’s cost to provide PT services increases as well, after accounting for additional fare revenue and subsidies from NZ Transport Agency (NZTA). As of 2019/2020, AT has advised a shortfall in PT operational funding of $10 million per annum as well as potential additional operational cost resulting from changes to Employment Relations Act as it relates bus drivers’ breaks. However, it is important to maintain the momentum of Aucklanders switching to public transport and to help decongest our roads.

21. I propose we should accommodate the cost pressures for 2019/2020 only as a prudent measure. I ask AT and council staff to work together next year and report back on options to address the long-term PT cost pressures as part of the Annual Budget 2020/2021 process. I also ask AT to continue to identify and implement measures to improve operational efficiency and cost effectiveness.

Fare reductions

22. Further to addressing the PT cost pressure, I also propose specific changes to two PT fares that would benefit families with children and ferry passengers, at moderate costs.

23. Children’s (5-15 years old) PT travel currently costs $0.99 during weekends and public holidays, which has been popular since its introduction. I propose free PT travel for all children aged between 5 and 15 during weekends and public holidays. There is a little extra capacity required for providing free travels, with an annualised cost of $643,000. The estimated increase in patronage resulting from this change is 989,000 (including accompanying adults). I propose AT implement this fare reduction from 1 September 2019.
24. The integrated PT fare scheme includes bus and train services and excludes ferry services. Fully integrating ferry fares ensure ferry passengers pay the same fare for the same journey taken via buses and/or trains. For example, ferry passengers travelling to or from ferry terminals by bus in the same zone will be free, whereas such bus journeys are currently treated as separate trips and chargeable. This is also the step move towards bringing bus, train and ferry services all under the Public Transport Operating Model. The annualised cost for integrating ferry fare only is estimated to be $502,000 and around 28 per cent of ferry HOP passengers will potentially benefit.

Investing in communities

Homelessness

25. In my initial proposal for the Annual Budget 2019/2020, I indicated my support to Auckland City Mission's HomeGround project, which will create a purpose-built housing and social services facilities with housing for those with complex needs, a crisis care facility and detox services among others. The HomeGround project is estimated to cost approximately $90 million to complete. Auckland City Mission has raised over $72 million from other sources and building the facility has commenced.

26. My proposal is for Auckland Council to contribute a $5 million grant towards this project. Auckland City Mission is doing critical work with the homeless on behalf of our city.

27. I welcome the central government's announcement of spending $197 million over the next four years on housing 2700 long-term homeless people in New Zealand. Homelessness is unacceptable in any society. There is a huge social cost and extra funding provided by the central government means that we can do more to tackle and eliminate homelessness in Auckland. Since launching Housing First, Auckland Council and a collective of five agencies have housed more than 900 homeless people, nearly half of them children. This extra funding will mean we can provide more homes for those in greatest need. We expect much of the central government's new funding will come to Auckland where there is most need.

Referrals from other committees

28. There are a number of funding requests which have been discussed by councillors and referred to the annual budget process for consideration.

   i) Expanding One Local Initiative (OLI) programme fund

   In April 2019, the Finance and Performance Committee approved allocating $1.5 million in 2020/2021 from One Local Initiative (OLI) fund to the Ngāti Ōtara Multi-sport and Cultural Centre. I propose that $1.5 million be added to the OLI programme funding in the second half of the 10-year budget after the scheduled completion of CRL.

   ii) Landlord works for Colin Dale Park

   In November 2018, the Finance and Performance Committee noted that Colin Dale Park has always required wider park facilities (enabling landlord works) to satisfy current lease obligations and make provision for future tenants. The Finance and Performance Committee agreed an additional capital expenditure budget of up to $8.9 million for enabling landlord works subject to this annual budget process.

   I propose that up to $8.9 million of capital expenditure be provided to the Parks, Sports and Recreation department to undertake wider park facilities to satisfy lease obligations to a number of stakeholders. Two current users of the park, the Manukau Taniwha BMX Club and the Counties Manukau Off Road Racing Club, have recently been granted funding from the Sport and recreation Facilities Investment Fund to construct tracks and other facilities. This funding will contribute to the wider services needed by groups like these, such as parking.

   I also note that the master plan for Waikaraka Park is being developed, and the outcomes of this work will be considered in Annual Budget 2020/2021.
iii) Future funding for Auckland Citizens Advice Bureaux (ACABx)

An additional $200,000 grant to Citizens Advice Bureaux was budgeted for 2018/2019 during the 10-year budget process to address the immediate financial stresses some of the bureaux were facing due to high population growth and demand on their services. The Environment and Community Committee approved the future funding model for Citizens Advice Bureaux and referred a baseline funding increase of $200,000 per annum (plus inflation) for 2019/2020 and 2020/2021 respectively.

I support the increases in baseline funding for the next couple of years, accommodated within existing budget. This would ensure the continuity of services provided through ACABx, as transition to the new funding model takes place. This also allows the council’s level of investment in CAB services to be considered as part of the 10-year Budget 2021-2031.

iv) Investigating options for the future of central library

In April 2019, the Environment and Community Committee endorsed the central library priority action for the investigation and development of a business case. The Environment and Community Committee referred the request for operational funding of $420,000 for the 2019/2020 financial year to be considered as part of the Annual Budget 2019/2020 process.

The central library building has challenges due to its age. Renewals have been undertaken on a component basis without an overall understanding of the effectiveness or value of that investment. I support investigating a wide range of future options for the central library with an open mind. However, the funding of $420,000 for developing the business case would need to be met from existing council budget.

v) Auckland Domain Accessibility Improvement Programme (stage 1)

Auckland Domain Committee endorsed the stage 1 improvements as part of the Auckland Domain Accessibility Improvement Programme and the development of the associated communications plan for the public. It recommended $5 million capital funding be provided as part of the annual budget process.

I commend Waitematā Local Board for providing funding to install a number of new paths, expand Kiosk Road carpark and install trial gates for Titoki Street carpark and Carlton Gore entrance. I propose $150,000 capital expenditure budget in 2019/2020 to support signage for the new paths.

I note consideration has yet to be given to other matters including one-way configuration for certain part of the roads within the domain, introduction of parking charges and the accounting for parking revenue. Consideration on the remainder of $5 million capital funding request should be deferred until further advice on those matters is available from the Auckland Domain Committee.

Hibiscus Youth Centre

29. As part of last year’s 10-year budget decisions, the Governing Body agreed to provide a one-off operational grant to the Hibiscus Youth Centre of $100,000 in 2018/19. This was interim funding, pending the outcome of a review of the council’s provision of financial support for youth centres. This review has yet to be completed so it is appropriate that another year’s interim funding is provided. This will be funded from the council’s existing budgets. I would note that provision of $100,000 in annualised support to the Hibiscus Youth Centre is a significant uplift in ratepayer funding from a historic perspective. The work the Centre does is important. Nevertheless, the policy review may not recommend a framework that delivers this level of support in future years. The Centre should be mindful of this as it budgets its expenditure for future years.
A cleaner environment

Illegal dumping

30. In February 2018, the council agreed to my proposal to invest additional $200,000 in resources to address illegal dumping, such as CCTV cameras, enforcement officers and a dedicated phone line for reporting illegal dumping. Staff advised that this had more than doubled the number of infringement notices the council has issued over the previous year. Region-wide volume of illegally dumped material have been dropping nearly month on month for the past year.

31. Notwithstanding the success, I share the concerns of a number of local boards particularly in the south that they still observe unacceptable levels of illegal dumping. I propose to continue the current provision of $200,000 per annum. I am advised that it can be accommodated within the 10-year budget. As the Waste Management and Minimisation Plan is being implemented, we will see sub-regional Resource Recovery Centres being established, which will hopefully reduce the problem.

32. In the coming year, we need to refocus our efforts on waste minimisation in the areas of construction and demolition. Industrial and commercial waste constitutes around 80 per cent of what goes to landfill. The council needs to work with the private sector and with central government to minimise waste and maximise recycling. This will be a key focus in the 2019/2020 year.

Graffiti vandalism on rail corridor

33. I am concerned that graffiti vandalism on the rail corridor has worsened. Auckland Transport is undertaking a review of the current service arrangement.

34. Historically, the graffiti repainting service spanned from Kingsland to Sylvia Park. AT has worked with KiwiRail to spend $400,000 per annum to expand the scope to cover Swanson and Pukekohe. I am also proposing an additional $250,000 of annual operational expenditure funded by the existing budgets in the Auckland Council parent. This increased investment will fund the following initiatives:

- 15 rail bridge inspections and repainting.
- sponsored artworks and murals at five level crossing sites.
- two pilot sites for strategic planting.

35. These initiatives will have the potential to cut clean-up costs in the long-run and improve the quality of our rail network for Aucklanders and visitors alike.

Regional Facilities Auckland

36. Regional Facilities Auckland (RFA) has submitted three funding requests that are accommodated in the proposed Annual Budget 2019/2020:

- $3.5 million in 2019/20 only to address lower revenue.
- accelerated protective security at RFA facilities.
- Aotea Centre refurbishment.

Revenue shortfall

37. RFA advised of a revenue shortfall of up to $3.5 million for 2019/2020 due to business interruptions including major capital works at Auckland Zoo and Aotea Centre, and Queens Wharf Terminal Project restricting access to Shed 10 and The Cloud. Whilst the council as the shareholder has little choice but to fund the shortfall, I ask RFA to apply rigour in its future budgeting and forecasting given a pattern of revenue forecasts falling short of expectations.
Visitor security initiatives

38. RFA proposes to accelerate a programme of visitor security initiatives to achieve the “managed” capability maturity level under the NZ Protective Security Requirement (NZPSR). RFA is requesting an additional $800,000 annual operational funding for new specialised security staff and training, and $7 million capital funding over two years. This is in addition to the capital funding of $5.9 million and operating funding of $3.6 million approved for RFA facility security and visitor safety in last year’s 10-year budget.

39. I support appropriate security measures that are now being demanded by concert promoters and other RFA customers. The RFA’s request highlights the need to bring a council group-wide to our protective security requirements for all our assets, especially considering what will be needed for the major events in 2021. In light of this, I propose:

- capital funding of $3 million and operating funding of $800,000 in 2019/20.
- the other aspects of RFA’s request beyond 2019/20, be considered as part of a council-wide review of protective security for all our regional assets for consideration in the 2020/21 Annual Budget. Given some measures may require lead in time, urgency will need to be accorded to this work, and include collaboration with the Crown.

Aotea Centre capital pressure

40. RFA advised an increase in capital cost of $14 million to refurbish the Aotea Centre, which was budgeted at $52.8 million. The circumstances surrounding the cost of the refurbishment warrants a review. In the meantime, the additional project costs need to be funded.

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

41. My proposal for the Annual Budget 2019/2020 covers Auckland Council group. Proposed budget changes relating to Council-controlled Organisations (CCO) such as AT and RFA are informed by their budget submissions and presentations at the Finance and Performance Committee workshops.

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

42. This proposal takes into consideration local boards’ input into the annual budget process. Local boards provided their feedback on regional issues and advocacy at the Finance and Performance Committee workshop of 8 May 2019. Regarding regional issues, local boards generally supported proposed changes to rating and fees, as well as the proposed amendment to the 10-year Budget 2018-2028 relating to the asset transfer from Panuku.

43. In respect of local issues, local boards advocated for:

- delivery of key advocacy projects (OLIs) as soon as possible.
- improving water quality across the region, through a range of solutions, such as funding for riparian planting, and increased compliance monitoring.
- waste management. In particular, the development of sub-regional resource recovery centres.
- addressing environmental concerns, such as kauri dieback, coastal erosion, and pest and weed management.
- equitable funding for and adequate provision of community facilities to facilitate growth, particularly for pools and other recreational and sports facilities.
44. The focus for the council in 2019/2020 is to deliver the “build-it” 10-year budget. I expect to see tangible progress in delivering the OLIs programme, water quality and natural environment targeted rates funded initiatives. Given the limited funding capacity, additional requests for local asset-based services will be challenging to provide for. Any considerations will need to be based on evidence and driven by more broader funding approach (e.g. local targeted rates).

**Māori impact statement**

45. The 10-year budget includes $150 million funding to achieve Māori outcomes. Projects across the group are underway to focus on strategic priorities including Te Reo Māori, marae development, kaitiakitanga (Water) and Māori business, tourism and employment (economic development). In 2019/2020, I expect the group to continue to deliver the projects contributing to these priorities. Additional spend proposed in this annual budget would affect the community in general including Māori.

**Financial implications**

46. The updated financial position incorporating my proposal for the Annual Budget 2019/2020 is as follows.

- projected $2.75 billion of capital investment (including investment by CRLL and Crown Infrastructure Partners) and $4.22 billion of operating expenditure.
- average general rates increase for 2019/2020 remaining at 2.5 per cent.
- projected Auckland Council group total assets for 2019/2020 $55.34 billion, compared with $54.19 billion for 2019/2020 in the 10-year budget.
- projected Auckland Council group debt for 2019/2020 reducing from $9.95 billion in the 10-year Budget 2018-2028 to $9.77 billion, primarily due to a lower opening debt position and change in timing of CRL contributions, partially offset by the increase in the weathertightness provision.
- projected debt-to-revenue ratio still remaining within the council’s internal ceiling of 265 per cent, with the 2019/2020 at 255.7 per cent, and outer-years peaking at 264.1 per cent in 2022/2023.

**Risks and mitigations**

47. A number of budget risks are outlined in the Attachment A Key budget issues, including NZ Transport Agency capital subsidy revenue, construction inflation, public transport growth, ongoing discussions with the central government about CRL related costs such as future ownership and operating arrangements.

**Next steps**

48. The Finance and Performance Committee will consider this proposal and make recommendations to the Governing Body which will make decisions about the Annual Budget 2019/2020. Staff will then prepare the Annual Budget 2019/2020 document for adoption by the Governing Body in June 2019.
Ngā tāpirihanga
Attachments

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Ngā kaihaina
Signatories

| Author         | Phil Goff, Mayor of Auckland                      |
Attachment A: Key budget issues

Purpose
1. To provide a budget update and information to support the decision-making on final budgets for Annual Budget 2019/2020.

Executive Summary
2. The financial year 2019/2020 is the second year of the 10-year Budget 2018-2028, which was adopted in June 2018. The 10-year budget included a $26 billion investment programme to address growth pressures on transport, water, environment and community infrastructure. It also included additional operating budgets to address areas such as the natural environment.

3. This significant lift in investment was enabled through the introduction of funding tools such as the Regional Fuel Tax and new targeted rates, rates increases at 2.5 per cent for 2018/2019 and 2019/2020 and 3.5 per cent afterwards, and a prudent approach to debt.

4. An annual plan, known by Auckland Council as an annual budget, is produced for each year in between 10-year budgets, which are prepared every three years. It provides an opportunity to refresh the information for the coming year and consult with the community on a number of the changes proposed.

5. Decisions are now required in order for staff to finalise financial statements and the Annual Budget 2019/2020 document ahead of adoption on 20 June 2019

6. The budgets have been updated to incorporate the impact of decisions made by the Finance and Performance Committee and the Governing Body since adoption of the 10-year Budget 2018-2028. The budgets have also been updated to incorporate the impact of our budget review and resultant changes to cost, revenue and timing projections (detailed in Attachment A-2).

7. The updated budget position for 2019/2020 includes capital investment of $2.7 billion and operating expenditure of $4.2 billion. This is a balanced budget with $5.1 billion of operating revenue and a closing group debt of $9.7 billion. The key financial settings from the 10-year budget are maintained with an average general rates increase for 2019/2020 of 2.5 per cent and our projected borrowing remaining prudent, below our debt-to-revenue ceiling of 265 per cent.

8. A number of budget requests have come forward.

9. Attachment A-3 includes a list of the requests that have come through and have been discussed at committee workshops. As set out in the attachment, the total of all requests is for $110.8 million of expenditure across the next four years. This cannot be accommodated within our 265 per cent borrowing limit, where we have capacity for only $70 million. Information on each of the requests is included in this report to support prioritisation decisions.

10. An additional report to the Finance and Performance Committee on 22 May 2019 outlines advocacy items that have been resolved on by local boards and were presented to the Committee in a workshop on 8 May 2019.
Context

11. The financial year 2019/2020 is the second year of the 10-year Budget 2018-2028, which was adopted in June 2018. The 10-year budget included a $26 billion investment programme to address growth pressures on transport, water, environment and community infrastructure. It also included additional operating budgets to address areas such as the natural environment.

12. This significant lift in investment was enabled through the introduction of funding tools such as the Regional Fuel Tax and new targeted rates, rates increases at 2.5 per cent for 2018/2019 and 2019/2020 and 3.5 per cent afterwards, and a prudent approach to debt.

13. An annual plan, known by Auckland Council as an annual budget, is produced for each year in between 10-year budgets, which are prepared every three years. It provides an opportunity to refresh the information for the coming year and consult with the community on any changes that are proposed.


Budget updates

Decisions made after adoption of the 10-year Budget 2018-2028

15. Budgets have been updated to incorporate the impact of decisions made by the Finance and Performance Committee since adoption of the 10-year Budget 2018-2028. These include:
   - Operating expenditure and capital expenditure deferrals from 2017/2018 (17 October 2018).
   - Bring forward of $20 million capital expenditure for Panuku relating to Sealink (17 October 2018).
   - $3.3 million additional operating grants for three years to Eden Park Trust (19 March 2019).
   - Additional funding to third-party amenities (MOTAT, Auckland War Memorial Museum etc.) of $1.6 million (19 March 2019).
   - Additional expenditure of $21 million agreed on two confidential matters where those items were commercially sensitive.

16. Budgets have also been updated to incorporate the impact of decisions made by the Governing Body since adoption of the 10-year Budget 2018-2028. These include:
   - $29 million additional capital expenditure to support the America’s Cup, of which $14.5 million will be funded by the Crown, (6 December 2018).
   - Additional funding commitment for the City Rail Link (CRL) of $500 million and associated offsetting funding items (2 May 2019).

Budget review

17. A detailed review of budget information has been undertaken to ensure the latest cost, revenue and timing projections are included in the Annual Budget 2019/2020 and outer year projections.

18. Key adjustments included:
   - Budget timing adjustments to reflect latest forecasts of project delivery for the current financial year (2018/2019) and the remainder of the 10-year budget period (see appendix A-1).
   - Updated interest expenditure projections
   - Higher revenue projections, particularly in regulatory services and public transport.
   - Reduced general rates revenue projections to reflect lower increases in the rating base than projected in 2018/2019 and lower increases in 2018/2020.
• Development Contributions revenue is now projected to be $30 million less in 2019/2020 than was projected in the 10-year budget.
• Ports of Auckland Limited (POAL) are now projecting an operating cash surplus $34 million lower for 2019/2020 than had been projected in the 10-year budget. Capital expenditure is projected to be $69 million higher than planned as POAL progress the 5-year business plan.
• A projected $154 million increase in borrowings from an increase in the weathertightness provision due to revised cost estimates to remediate multi-unit buildings, which have escalated due to more certainty around the costs of remediation, and the inability to share costs with other parties to the claim following their liquidation.
• Additional projected expenditure of $1.2 million by Business Improvement Districts (BIDs), to be funded by additional revenue from the existing BID targeted rate.
• $3.5 million bring-forward of America’s Cup 2021 event operating expenditure from 2020/2021 to 2019/2020.
• A provision of $4 million in 2019/2020 for sponsor-related costs associated with assurance of the CRL programme, and work to ensure ongoing strategic alignment.
• Updating projections to reflect the Corporate Property Strategy with neutral budget impact as agreed by the committee in May 2018.
• $8.3 million of Water Quality Targeted Rate and Natural Environment Targeted Rate programme capital expenditure being converted into operating expenditure.

19. As part of the budget review process additional potential budget risks have been identified. These risks do not require any budget adjustments at this point, but may require addressing in the future:
• **NZTA capital revenue** - Auckland Transport have raised as a budget risk that there have been challenges in receiving NZTA capital grants to the level agreed as part of ATAP. Based on current trends, Auckland Transport have indicated that for 2019/2020 up to $120 million of expected NZTA capital grants may be at risk.
• **Regional marina strategy** - On 5 March, Planning Committee endorsed the development of a region wide marina strategy. Council staff are working on the implementation of this resolution, including any projected financial costings and funding required. This will return to the Planning Committee when the work has sufficiently progressed for approval.
• **Construction inflation** - A large portion of the Auckland Council Group’s capital programme is construction-related. If construction inflation is higher than expected, this would create pressure on the Group’s capital programme.
• **Public transport growth** – Continued rapid growth in demand for public transport services, alongside policy direction to increase public transport mode share, may create substantial ongoing operating cost pressure over the medium to long term.
• **CRL related costs** – While the cost of constructing the City Rail Link has recently been reforecast and funding commitments updated, work is ongoing with central government and Auckland Transport to determine the future ownership and operating arrangements, as well as costs associated with preparing to run more services across the Auckland rail network. This is likely to have further funding implications for the council, however the extent of this is currently highly uncertain.
Updated budget position

20. Starting with the 10-year Budget 2018-2028 and incorporating the changes from decisions made subsequently, the budget review, and the proposals included in the Consultation Document an updated budget position has been prepared.

21. The movements that deliver this budget position are included in Attachment A-2.

Capital programme

22. The updated position includes capital investment for 2019/2020 of $2.7 billion, this is $221 million higher than the projection included in the 10-year Budget 2018-2028.

Operating position

23. Auckland Council Group total operating expenditure for 2019/2020 is projected to be $4.2 billion, $43 million higher than the projection included in the 10-year Budget 2018-2028.

24. Total projected revenue for 2019/2020 is $5.1 billion. As set by the 10-year budget, this includes an overall average General Rates increase to existing ratepayers for 2019/2020 of 2.5 per cent.

25. The projected overall council operating position remains balanced and ensures the council remains on track to full funding of depreciation by 2025 in line with the policy.

Debt position and investment capacity

26. Projected Auckland Council Group debt at the end of 2019/2020 has decreased from $9.9 billion in the 10-year Budget 2018-2028 to $9.7 billion primarily due to a lower opening debt position and change in timing of CRL contributions, partially offset by the increase in the weatherightness provision.

27. The ability of the council to commit additional budget while maintaining the above rates settings is dependent on forecast levels of borrowing, particularly with respect to our financial strategy target of borrowing not exceeding 265 per cent of revenue. In this updated budget position our debt to revenue ratio peaks at 263.5 per cent in 2022/2023. The margin between this and our internal limit would enable additional expenditure of up to $70 million to be committed over the next four financial years.

28. If the council were to agree to $70 million of additional spend this would reduce the available capacity entirely and leave the council unable to respond to any unexpected and urgent challenges that emerged in the near future. This includes the risks that were highlighted earlier in the report.
Budget decision-making

29. A number of budget requests have been proposed.

30. Attachment A-3 includes a list of the requests that have come through and have been discussed at committee workshops. As set out in the attachment, the total of all requests is for $110.8 million of additional expenditure across the next four years. This cannot all be accommodated within our 285 per cent borrowing limit, where we only have capacity for up to $70 million. Information on each of the requests is included in this report, to support prioritisation decisions.

31. An additional report to the Finance and Performance Committee on 22 May 2019 outlines advocacy items that have been resolved on by local boards and were presented to the Committee in a workshop on 8 May 2019.

Auckland Transport

Additional operating funding (public transport)

32. Auckland Transport has identified net operating cost pressures relating to public transport (PT) delivery of $10 million per annum.

33. The net operating cost pressure is made up of increased operating costs of $50 million, offset by $40 million additional expected external revenue from increased fees and user charges and NZTA revenue.

34. The key drivers of this pressure are:
   - Higher public transport patronage than anticipated during the 10-year Budget 2018-2028.
   - Inflationary pressures, safety initiatives such as Project SaFE and various contract cost escalations.

35. An operating pressure like this would usually be addressed through additional revenue (primarily general rates) or a reduction in costs elsewhere. Given revenue constraints this would need to be debt funded. We would not advise doing this for longer than one year. Other options will need to be considered in future budget rounds.

Employment Relations Act 2018

36. A change in the Employment Relations Act 2018 (coming into effect on 7 May 2019) requires a 10-minute break for public transport drivers every 2 hours, putting pressure on resource requirements.

37. The estimated impact, net of NZTA funding, is $3 to $5 million per annum.

Fare reduction proposal (Public Transport)

38. Auckland Transport is proposing a public transport fare reduction structure to encourage increased uptake of public transport. The reduced fares will lead to a reduction in revenue of $1.1 million per annum.

39. The targeted fare reductions consist of:
   - Ferry fare integration
   - Free weekend and public holiday travel for children from 5 to 15yrs, reduced from 99 cents per journey

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Regional Facilities Auckland

Aotea Centre capital pressure

40. The Aotea Centre refurbishment programme includes major external renovations to address longstanding structural deficits in the Aotea Centre and the refurbishment of interior public areas, including the conventions facilities.

41. The original programme saw completion of most project elements by March 2019, with full project completion by June 2019. However, the project was delayed to the end of the 2019/2020 financial year as result of changes to MBIE’s, the council’s and the industry’s position on the use of materials on building facades following the Grenfell Tower fire.

42. An estimated $14 million additional cost, on top of the existing $52.8 million budget, is expected to be incurred to meet extension of time claims and rework of design and plans in order to complete the revised cladding solution.

Business disruption

43. RFA have identified one-off reductions in projected revenue for the 2019/2020 year only, totalling $3.5 million from disruption at:
   - Auckland Zoo due to major construction works ($1.9 million)
   - Aotea Centre due to the extension of the construction timeline ($0.5 million), and
   - Shed 10 and The Cloud due to restricted access while the Queens Wharf Terminal Project continues ($1.1 million).

Security programme acceleration

44. RFA are seeking additional funding to accelerate a programme to get to “managed” status of the NZ Government approved Protective Security Requirements (PSR) by the end of the next calendar year. To date, the council approved initial funding of $400k per annum to enable RFA to work towards this grading within 3 to 4 years.

45. RFA have proposed acceleration of the programme to get to the “managed” state by the end of the next calendar year. The request is for:
   - Additional operating expenditure for new specialised security threat staff and to accelerate security training and protocols.
   - Additional capital investment for bollards, CCTV, technology to lock down venues, security scanners, and preliminary works on the centralisation of RFA’s security operations into one centre.

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Auckland City Mission – HomeGround grant

46. Auckland City Mission is progressing with their HomeGround project which will create a purpose-built housing and social services facility including housing for those with complex needs, a crisis care facility and detox services.

47. It is proposed that Auckland Council should support Auckland City Mission’s HomeGround by contributing $5 million towards the $90 million needed to complete the project.

48. Auckland City Mission has been successful to date in raising over $72 million from central government and private sector sponsors and the proposed contribution of $5 million will significantly assist towards the target of $90 million to complete the project.

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<thead>
<tr>
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Illegal dumping

49. In February 2018, $200,000 funding was allocated to address illegal dumping through measures such as installation of security cameras and notices. This has succeeded in lifting the rate of infringement fines for dumping and secured a number of prosecutions.

50. We will continue to work with government and local communities to build on the progress we have made so far. It has been proposed that additional funding of $200,000 be continued in the Annual Budget 2019/2020.

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Central Library business case

51. Funding is requested for the development of an indicative business case for consideration through the 10-year Budget 2021-2031 process including:

- Understanding of current and future Central Library service needs
- Investigation of whole of life asset maintenance and renewal requirements
- Identify approaches to achieve better outcomes or reduce costs, such as public or private partnerships, including the potential for expansion or redevelopment of the existing building or re-location of service to an alternate site/building

52. On 9 April 2019, the Environment and Community Committee resolved to refer the request for operational funding of $420,000 for the 2019/2020 financial year to the Finance and Performance Committee to be considered as part of the Annual Budget 2019/2020 process.

53. Staff advise that this can be accommodated within existing budgets.

<table>
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<th>2020/21</th>
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Additional One Local Initiative (OLI) Budget

54. On 16 April 2019, the Finance and Performance Committee approved the incorporation of the Ngati Otara Multi-sport and Cultural Centre project into the One Local Initiative (OLI) programme. Additionally, the committee approved the allocation of $1.5 million in financial year 2020/2021 from the OLI fund to this project.

55. Finance and Performance committee also resolved to consider the expansion of the overall One Local Initiative (OLI) programme fund by $1.5 million as part of the Annual Budget 2019/2020.

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Citizen Advice Bureau funding increase

56. This request is to increase the annual baseline grant to Auckland Citizens Advice Bureaux Inc (ACABx) by $0.2 million per annum for two years from 2019/2020. This allows time for the development of the regional network service provision framework which would inform funding requirements for the next 10-year budget.

57. In May 2018 the Governing Body approved one-off additional $0.2 million funding to ACABx for 2018/2019. This funding was additional to the $1.9 million granted to ACABx for 2018/2019 which was approved conditional on joint development of a new funding model with council.

58. Auckland Council and ACABx have undertaken a joint review of the funding model in 2018/2019. Feedback on funding to CABs has been sought from local boards at business meetings in March 2019 with the final report received by the Environment and Community Committee on 14 May 2019 on CAB funding and the allocation of the funding across bureaux.

59. Staff advise that this can be accommodated within existing budgets.

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</table>
Auckland Domain masterplan implementation

60. A masterplan was prepared for the Domain in 2016 and funding is requested to implement a range of accessibility improvements in the masterplan.

61. The public consultation on the development of the masterplan identified:
   - the Domain is hard to get to and hard to get around;
   - there are no ‘car free’ pedestrian or cycle circuits;
   - commuter parking is a major issue (parking is at 91% capacity week days);
   - there is only one purpose-built path from the new Parnell train station and no infrastructure to support access from the other two train stations or the new bus service.
   - as a major tourism hub its tourist infrastructure is not fit for purpose

62. On 29 November 2018, the Auckland Domain committee resolved to recommend funding from the Annual Plan of $5 million over two years to enable delivery of stage one of the Accessibility Improvement Programme,

63. Staff advise that the operating expenditure can be funded within existing budgets.

<table>
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Colin Dale landlord enabling works

64. On 20 November 2018, Finance and Performance Committee agreed that Colin Dale Park has always required wider park facilities (enabling landlord works) to satisfy current lease obligations and make provision for future tenants and, subject to the 2019/2020 Annual Plan process, would agree an additional capital expenditure of up to $8.9 million for wider park facilities (enabling landlord works) at Colin Dale Park.

65. Options for lower levels of investment were presented to the Finance and Performance Committee on 15 May which would deliver only basic works and postpone some of the utilities provision for the site.

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Attachments

- Attachment A-1 2018/2019 budget carry forwards
- Attachment A-2 Updated budget position reconciliation
- Attachment A-3 Schedule of budget change requests

Signatories

Authors
Nick Bird, Financial Analyst
Michael Burns, Manager Financial Strategy

Authorisers
Ross Tucker, General Manager Financial Strategy and Planning
Matthew Walker, Group Chief Financial Officer
Attachment A-1: Budget timing changes

The 2019/2020 budget projections have been adjusted to incorporate forecast project timing changes, alongside other budget review changes.

The net impact of these timing changes is an increase in the 2019/2020 capital programme of $34 million and additional operating expenditure of $19.7 million in 2019/2020.

Key timing changes affecting the 2019/2020 capital budgets included within this are:

- Updated timeline for investment in infrastructure to support the America’s Cup 2021
- Timing changes to city centre and downtown works
- Roll-over of the $20 million Climate Change Response Fund not required in 2019/2020
- Re-phasing of the Panuku Transform and Unlock programme, and their programme of investment in the Waterfront
- Revised timing of significant Watercare projects including the Central Interceptor, the Northern Interceptor, and the Warkworth-Snells-Algies Wastewater Servicing project
- Roll-over of the Panuku Strategic Development Fund
- Delays to the Aotea Centre refurbishment project and construction work at the Zoo
- Revised forecast assumption about future capex delivery timing.

Operating expenditure carried over from 2018/2019 to 2019/2020 relates to provisioning for specific projects. Examples of this include:

- $1.2 million related to commercial arrangements for America’s Cup 2021
- Initiatives to progress Māori outcomes totalling $300,000
- Operating expenditure relating to specific local board projects.
- Operating grants totalling $2.4 million to Auckland Regional Helicopter and Auckland Marine Rescue.
- Operating expenditure for initiatives relating to targeted rates and other specifically funded programmes

As the items have been funded previously, they can be funded through the associated underspends with no impact on rates and a favourable timing variation on debt.
## Attachment A-2: Updated 2019/2020 budget reconciliation

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*Net direct is core operating costs (employee benefits, grants and other expenditure) less core operating revenue (user charges, operating grants and other operating income)*
## Attachment A-3: Schedule of budget change requests

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