

# Mayoral Proposal

## Ten-year Budget 2018-2028

29 November 2017



## Foreword

My vision for Auckland is of a world-class city, a great place to live and as New Zealand's globally competitive city that attracts and retains talented and skilled people. Our region is a diverse and desirable place to live, which is evidenced by the unprecedented growth in recent years. That growth, however, brings significant challenges particularly around the rate of infrastructure growth needed for us to maintain our quality of life and ease of doing business.

Aucklanders want a better transport system, affordable housing, clean harbours, vibrant central city and town centres, a healthy natural environment and a wide range of recreational and cultural facilities that make this an attractive and interesting place. However, severe budget constraints prevent us from doing all that we would like to at once. We have to make choices as to what we prioritise to deliver first, while improving the effectiveness of core service delivery in our fast-growing city.

The priority areas I have set for this budget are:

- **Transport:** accelerating investment in our transport network, in particular public and active transport and optimising use of the existing network to address traffic congestion
- **Housing:** facilitating a lift in scale and pace of housing construction, through intensified housing and investment in new greenfields infrastructure to help ease the housing shortage and improve housing affordability
- **Environment:** dramatically improving water quality at our beaches and streams to stop the degradation of our natural environment and addressing the threat of global warming.

My proposal prioritises six key areas:

1. Ensuring that the increase in average general rates remains at 2.5% for the first two years and 3.5% after that with targeted rates to address specific issues of concern to Aucklanders.
2. Implementing a regional fuel tax that will allow Aucklanders to pay our fair share towards crucial transport infrastructure and services.
3. Working closely with central government as it implements programmes designed to increase housing supply and affordability and tackle homelessness.
4. Using targeted rates to fund programmes critical to addressing the water quality issues at our beaches and streams and investment to protect our natural environment.
5. A strong commitment to greater value for money and efficiency in Council spending and operations.
6. Challenging central government to provide additional funding tools appropriate for a council of our size and scale and reflecting the unique challenges we face as a result of our unprecedented growth.

The transport investment I propose is based on the level of funding Auckland Council can contribute with a regional fuel tax in place from 2018. It is necessarily a draft programme as we work through Auckland Transport to revise the Auckland Transport Alignment Project (ATAP) and Regional Land Transport Plan (RLTP) with the new Minister of Transport and NZTA. Auckland Council's contribution will be primarily focused on funding committed projects, such as the \$3.4 billion City Rail Link, and renewals of our \$18.5 billion of transport assets.

Phil Goff  
Mayor of Auckland

## Auckland Council's current state

### A fast-growing region

1. Auckland currently contributes over half of New Zealand's growth, 38% of our gross domestic product and 34% of our population. Auckland's success is therefore critical to New Zealand's success. Over the last year we have grown by close to 50,000 people. Auckland is forecast to reach a population of two million people by 2028, and every three years to grow by a population equivalent to the city of Tauranga. While welcome, growth also presents major challenges for us. These include the high cost of housing, traffic congestion and growing pressure on our environment.

### Our infrastructure needs

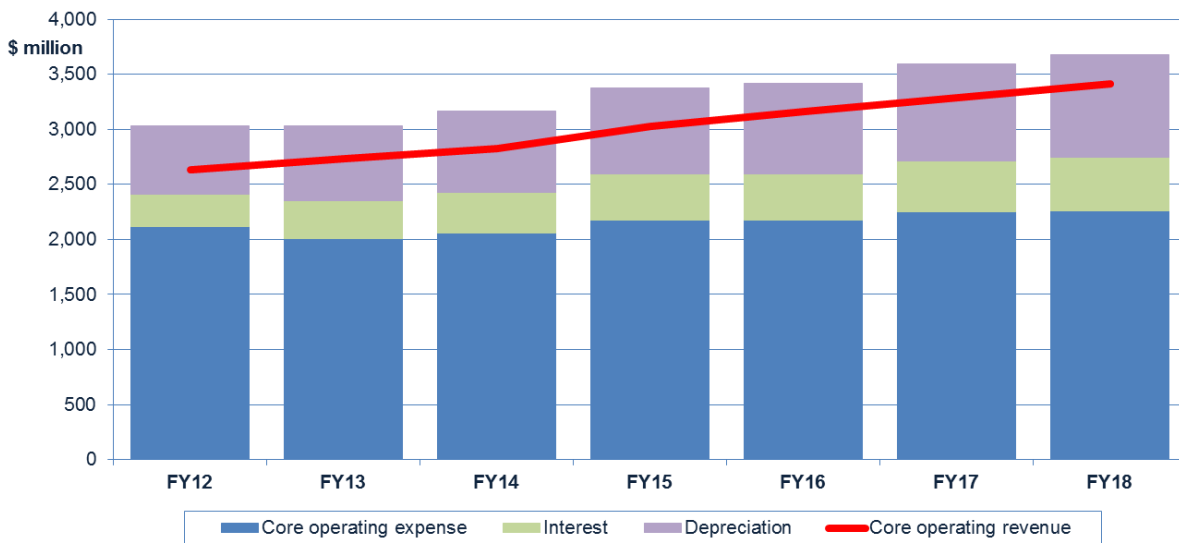
2. Auckland's Unitary Plan sets out where the region's growth can be accommodated, through enabling intensified housing within urban areas and in new greenfield areas. However, more housing can only be built if the critical infrastructure necessary to support it is in place.
3. Public transport networks, waste and stormwater treatment, parks and community facilities must reflect and support population growth, for the region to be able to maintain a high quality of life and ease of doing business. Regrettably, for some years infrastructure investment has consistently failed to keep pace with demand.
4. Key transport projects are required, such as the City Rail Link, light rail from the city centre across the isthmus and to the airport, facilitating busways and rapid transit in the north, north-west, and east (AMET1), boosting active transport modes such as walking and cycling and improving our roading network.
5. The largest wastewater project is the central interceptor, required to facilitate housing intensification and provide capacity in the wastewater system to meet population growth. It is also necessary to improve water quality at our beaches and streams by preventing stormwater flows into the wastewater system that then overflows into our harbours every time it rains.
6. We want to continue to invest in town centre redevelopment and urban regeneration around Auckland and to invest in transforming Auckland's city centre and waterfront to provide better amenity and ensure Auckland is a world-class city able to host events such as the America's Cup and APEC in 2021.

### Our financial context

7. Auckland Council owns and maintains over \$43 billion of assets including roads, water and waste water network, regional and local parks, stadiums and community facilities such as libraries and leisure centres.
8. Our primary source of funding infrastructure assets is borrowing, which is used as a way to spread the cost over the generations who will use them. However, this also increases interest and depreciation charges. The growth of our asset base to over \$43 billion has been funded in part by debt which had grown to \$8.3 billion at 30 June 2017. The requirement to put aside more money to meet the need for vastly increased infrastructure has outstripped the ability of the Council to borrow more while maintaining a prudent debt-to-revenue ratio. With substantial






committed costs such as our \$1.7 billion share of the City Rail Link, and the billions of dollars required to fund new water and waste-water infrastructure, we are fast approaching the limit of what we can prudently borrow.

9. Prudent financial management is essential. Auckland Council has a strong AA credit rating which helps keep our interest costs low. Core operating costs (excluding interest and depreciation) have been managed at an average annual 1.1% increase which compares favourably to the local government inflation index of 1.7% and asset growth at over 3% p.a. However, there is significant pressure on capital budgets as the cost of building and construction in Auckland has been rising at an inflation rate of around 7% per annum for the last two years.



10. Local governments have limited revenue streams of rates, water charges, public transport charges, development contributions, and grants and co-funding such as through NZTA. With additional revenue mechanisms, such as a regional fuel tax, Auckland Council will be able to raise more revenue needed for required future investment.
11. However, a wider look at devolution of funding to local authorities, and Auckland in particular, is overdue. In Australia, for example, devolution of GST to state authorities responsible for infrastructure in cities is an important source of funding. Government currently charges 15% GST on council rates, pushing up the cost of rates, but then retains that revenue. In Auckland's case, the revenue is around \$240 million a year. If returned to Auckland it would enable us to meet more of our own infrastructure costs without going cap in hand to government. Payment of rates on government-owned property in Auckland, currently exempt, would add around \$40 million to the Council's income.
12. Council is seeking further efficiencies to reduce operating costs and free up money for services and infrastructure. Substantial savings from amalgamation have already been banked, but more must be done to achieve the benefits of amalgamation through group shared services, procurement and efficiency improvements. The section 17A value for money review programme I launched earlier this year plays a key role in identifying areas of efficiency savings.

## The proposal

Capital expenditure			
		Long-term Plan 2015-2025	Proposal 2018-2028
Transport		\$7.9bn	\$11-12bn
Water		\$5.6bn	\$7.0bn
Parks and Community		\$2.4bn	\$3.2bn
Centres Development		\$1.0bn	\$0.9bn
Other		\$1.8bn	\$1.8bn
<b>Total</b>		<b>\$18.7bn</b>	<b>\$24-25bn</b>

### Transport

13. With 800 additional cars on Auckland roads every week, congestion is getting steadily worse. A recent NZIER report estimated that this has a negative \$2 billion impact on New Zealand's annual gross domestic product. With that economic cost and the impact of congestion on our quality of life, through increasing frustration and taking away time with our families, tackling this problem is a core priority.

### Funding transport investment

14. I have welcomed the new Government's commitment to change the law to allow the introduction of a regional fuel tax for Auckland in 2018. This is a much fairer way for the users of Auckland's road network to contribute to new transport infrastructure than increasing general rates. Investment in public and active transport modes are a vital part of reducing congestion on the road network and allowing faster journey times.

15. A regional fuel tax is estimated to raise between \$130 to \$150 million each year, enabling an additional investment in transport of \$1.3 to \$1.5 billion over 10 years. My proposal is that a regional fuel tax will replace the Interim Transport Levy. The government has informed Council that it will legislate with a view to enabling the implementation of a regional fuel tax in the next year.

16. I would only consider re-instating the Interim Transport Levy on a temporary basis if we were advised that, because of the timing of the legislative process, the introduction of the regional fuel tax could not be achieved by the end of 2018.
17. Removal of the Interim Transport Levy will reduce rate payments by Auckland residents by \$114 a year. We will consult Aucklanders on their preferences for funding transport infrastructure through the Ten-year Budget process. To date, Aucklanders have indicated that a regional fuel tax is clearly preferred over a general rates rise, tolling or the sale of strategic assets to fund new infrastructure.
18. Longer term, other road pricing demand mechanisms such as congestion charges will be considered to replace, in full or in part, the regional fuel tax. The process of investigation into how this could best be implemented was started under the last government and will continue under the current one.
19. A further source of funding for transport and other infrastructure is an investment partnership model, such as that being led by Crown Infrastructure Partners. This model is intended to enable accelerated infrastructure investment to proceed without significant impacts on Auckland Council's level of borrowing. This allows infrastructure to be provided much earlier than would otherwise be possible and for these reasons I support the development of this model. The cost will still need to be met by Aucklanders through higher development contributions and infrastructure targeted rates. The new government accepts there needs to be a way for Council to provide housing infrastructure without exceeding the debt constraints Council operates under. It may however put forward alternative strategies which the Council will need to consider.
20. Under the investment partnership model \$600 million in funding will be made available for new developments in the north and south of Auckland, and around \$360 million is to finance transport projects with the residual to finance waste water and stormwater infrastructure.
21. The investment partnership model has additional potential applications, such as to fund the construction of Watercare's central interceptor waste water project, required to manage the intensification of housing and the population, particularly on the isthmus. Using that model for the central interceptor would free up Council borrowing headroom for transport and other housing infrastructure investments, estimated to be up to \$1 billion.

### **Transport investment programme**

22. Addressing Auckland's transport challenges will require a joined up response from Council and central government as a shared responsibility, with central government having significantly larger revenue sources. The Auckland Transport Alignment Project (ATAP) created a framework for Council, Auckland Transport, NZTA and the Ministry of Transport to respond to transport challenges over the next decade. It was recently updated at Council's request to reflect the higher than expected population growth requiring acceleration of the ATAP programme, and currently projects substantial additional expenditure requirements for Auckland's transport infrastructure over the next decade.
23. The new government has clearly signalled different transport priorities, with a stronger focus on public and active transport, in particular investment in light rail from the central city to the airport and to the north-west. The new Minister of Transport has initiated a further review of ATAP which is due to report back in March 2018. I welcome the government's direction and

anticipate a streamlined process in order to incorporate a revised ATAP into the Council's Ten-year Budget and Auckland Transport's Regional Land Transport Plan. Following that review, new priorities and a new total cost will be calculated with agreement to be reached between Council and central government over how any funding deficit will be shared between the Council and government.

- 24. Due to the need for Council's budget processes to meet deadlines set in legislation and the government's legitimate desire to review key transport policy settings, the transport programme for Auckland will not be finalised at the time we go to the public for consultation. This Ten-year Budget will make significant progress on the ATAP programme, however revision may be required as part of the next annual budget 2019/2020 consultation.
- 25. The majority of Auckland Council's contribution to the transport programme will be to fund committed projects, such as the City Rail Link, and renewals of our \$18.5 billion of transport assets. The proceeds of the regional fuel tax will be hypothecated towards expenditure required by the new ATAP agreement and will cover a variety of transport activities and projects across Auckland.
- 26. As well as targeting congestion and economic outcomes, transport investment will also be influenced by the need to reduce carbon emissions to improve health and address global warming.
- 27. Acknowledging the process still to take place with central government, my current priorities for progressing transport projects in Auckland include:

<ul style="list-style-type: none"> <li>City Rail Link</li> <li>Network optimisation and technology</li> <li>Light rail from the central city to the airport</li> <li>North-western mass transit</li> <li>AMETI and the eastern busway</li> <li>Additional electric trains</li> <li>Airport access improvements including the Puhinui interchange</li> <li>Lincoln Road corridor</li> <li>Walking and cycling improvements</li> </ul>	<p>The Housing Infrastructure Fund proceeds will support growth in the north-west, including Redhills connections, Fred Taylor Drive, Totara/Trig Road extensions.</p> <p>The Crown Infrastructure Partners model is intended to support growth in the north, including connections around Wainui, and in the south, including rail and road connections around Drury, Paerata and Pukekohe.</p>
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## Housing and urban renewal

- 28. As Auckland's population has grown, new housing construction has failed to keep pace resulting in increased house prices and rents, and growing unaffordability. Consents issued have fallen by 4.5% over the last year indicating constraints on the ability to meet housing needs. We welcome the government's intention to increase the supply of affordable and social housing and will work with them, as appropriate, to achieve this.
- 29. The Mayoral Housing Taskforce, which reported in July, provides a framework for actions needed by Council, central government and the private sector to address housing shortages.

Progress on the Mayoral Housing Taskforce recommendations should be supported with an appropriate budget allocation.

30. A significant share of new housing will be built as brownfields development. Intensification of housing requires improved infrastructure to support it as well as public open space and good urban design. Intensification is facilitated by public transport infrastructure such as light and heavy rail with development around transport hubs and arterial routes.
31. It also requires water supply and waste water infrastructure through Council's CCO Watercare, and stormwater infrastructure, parks and open spaces and other community facilities, which Council provides directly.
32. Panuku Development Auckland was created in 2015 so that Auckland Council could take a more active role in urban redevelopment by facilitating development opportunities, including on Council-owned land. This is an important role in encouraging private sector development of new housing in existing urban areas.
33. Panuku is already progressing work in the "Transform"<sup>1</sup> locations of the central waterfront, Manukau and Onehunga. These are transformational urban renewal projects in key areas of our city. In the next ten years, regeneration work is planned in the identified "Unlock"<sup>2</sup> areas of Avondale, Henderson, Hobsonville, Northcote, Ormiston, Papatoetoe, Panmure and Takapuna. Given the recent announcements by the new government on their plans for housing construction in Auckland, Panuku will need to ensure that any "Unlock" work is aligned and coordinated with the relevant government agencies.
34. Panuku has identified that it currently lacks sufficient funding to execute the full "Unlock" programme. Panuku has an opportunity to prioritise two or three "Unlock" areas, such as Avondale and Northcote, and focus its efforts on these. In order for Panuku to carry out its facilitation role, the "Unlock" programme must also be supported by the other relevant parts of Auckland Council. For example, a proportion of the planned investment relates to transport projects, community facilities upgrades, stormwater and playground investments. In terms of funding, Council officers are investigating the opportunity for some re-allocation of existing budgets to Panuku projects. Additionally, I support investigations into new funding arrangements such as targeted rates in areas where there may be significant benefit to residents from the urban regeneration. Subject to any changes to the property disposal policy, some level of "recycling" property may be appropriate to support the funding gap for specific projects.
35. Council's commitment to the Housing First project specifically addresses homelessness and we need to build on the progress made. Additional funding for homelessness of \$0.5 million per annum will continue for the remainder of the Council term and will support coordination and monitoring of efforts to address homelessness, including Housing First Auckland and emergency housing providers and homeless services across Auckland. Discussions will take place with Government ministers around whether government funds will be available to expand Housing First's scope to increase the rate at which homeless people and families can be housed. The initiative to date has successfully housed 221 adults and families with children, putting it well on track to support 472 chronically homeless people into permanent accommodation and to sustain their tenancy.

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<sup>1</sup> "Transform" refers to transformational urban renewal projects where Auckland Council has significant land holdings.

<sup>2</sup> "Unlock" refers to urban renewal projects where Panuku is the facilitator, creating development opportunities for others.



## Sustaining and protecting our environment

36. Auckland is blessed with a beautiful environment. Our challenge is to protect, remediate and enhance our natural environment and address the pressures of population growth, the impacts of climate change and biosecurity issues. As Auckland grows we also have to provide more green open space for Aucklanders.
37. Water quality is a critical issue. Auckland Council must increase its investment in infrastructure significantly to ensure that it is safe for people to enjoy and swim at our beaches. Our natural environment is coming under increased pressure from pests, weeds and kauri dieback. We must do more to protect our natural bush and wildlife for future generations.
38. Auckland Council must play its part in addressing the causes of climate change and to ensure that we are ready to adapt to its impacts. My Million Trees Programme is well on track to being delivered, with over 170,000 in the ground already to help create a greener Auckland, provide carbon sinks and reduce sediment run-off into our waterways. We are working on other proposals including planning for the switch from diesel to electric buses, promoting electric light rail and working with government to encourage electrification of vehicle fleets.

## Water quality

39. The Council's Safeswim programme launched earlier this month, with [www.safeswim.org.nz](http://www.safeswim.org.nz) providing water quality forecasts for over 90 locations. This platform has allowed us to be transparent about the quality of the water at our beaches. This highlights the impact of wastewater overflows into our harbour, and the need to urgently address this problem.
40. Upgrading our water infrastructure to substantially reduce waste water overflows is a top priority for the next decade. That will include, where practicable and financially viable, separating stormwater from wastewater in older areas of the city. Other water quality issues include sedimentation, leakage from old or poorly maintained septic tanks and livestock and fertiliser run-off.
41. Watercare and Healthy Waters (Council's stormwater department) have worked together to create the Water Quality Improvement Programme to address water quality issues. The programme includes the construction of the central interceptor from the Mangere wastewater treatment plant to Grey Lynn to manage increasing waste water and stormwater flows in the western isthmus and increase capacity of the regional waste water system to support housing intensification.
42. Watercare funds its share of the Water Quality Improvement Programme through water user charges. Healthy Waters is funded by general rates. The Council's current budget has these projects spread over thirty years. I believe that we need to address this problem with greater urgency.
43. I am proposing a regional Water Quality targeted rate to fund Healthy Waters' part of the Water Quality Improvement Programme to help achieve at least an 80% reduction in waste water overflows within ten years. This will deliver water quality outcomes twenty years earlier than what is currently proposed in existing plans and budgets. The rate would be relatively modest at less than \$1.30 per week or \$66 per year for the average residential ratepayer (property value of \$1,080,000). Refer to the rating section below for more detail.

44. I believe Aucklanders want their city to be world class. In the twenty first century, world class cities don't allow waste water to flow into their streams and beaches. This problem is not new. It goes back more than a century. It is time to take the problem out of the too-hard-basket, and to stop passing it unresolved to future generations. I am asking Aucklanders whether they are ready to make the commitment of a small weekly sum to tackle, and resolve this problem, so we can live up to our reputation as a clean and green city.

45. Some of the key projects funded by the rate are shown below.



### Natural environment

46. The natural environment is coming under increasing pressure from population growth, urban sprawl and climate change. Council's current budget for natural environmental protection is \$97 million over the ten-year period. This does not allow us to reverse the decline in the biodiversity of our region and would not be sufficient to stop kauri dieback. We need to do more.

47. I asked officers to provide advice on scenarios for further action to protect our natural environment. The Mayoral Proposal offers Auckland residents the opportunity to feedback to Council whether they are ready to contribute through a targeted rate to address the problems of kauri dieback and pest and weed infestation.

48. A "targeted protection" natural environment package would raise an additional \$123 million and require an environmental levy of around \$21 a year, or 40 cents per week, for the average

residential ratepayer. An “enhanced protection and restoration” package would raise an additional \$356 million and require an environmental levy of around \$60 a year, or \$1.15 per week, for the average residential ratepayer. Further investment by Auckland Council also means we would be eligible for additional external funding. Refer to the rating section below for more detail.

49. The “targeted protection” programme would include the following projects, some of which are the subject of consultation in the Council’s draft Regional Pest Management Plan 2017-2022
- Kauri dieback – substantial increase in funding of around \$84 million to reduce the risk of spread of the disease from over 80% to around 40%
  - Pest control – increase from 25% to 40% of land under community-led pest control
  - Regional parks – increase control of pest plants and animals from 30% to 50% in high value ecological areas
  - Marine biosecurity and SeaChange – provides funding for staff to enhance the scale and delivery of marine biosecurity advocacy and regulation and support SeaChange recommendations.
50. The “enhanced protection and restoration” programme would additionally reduce the risk of kauri dieback spreading to 10 to 20%, protect 100% of high value ecological areas in regional parks, achieve 100% possum control in rural areas and achieve pest-free status on Kawau and Waiheke Islands among other things.

## City centre and waterfront

51. Auckland’s city centre is an important place of business and employment for the whole city. The area is a major contributor to our rating base and a place where increasing numbers choose to live. The city centre and waterfront and the events it hosts attract visitors from across the city, the country and the world.
52. In 2021, we are likely to host the Americas Cup defence and APEC Leaders’ and Ministers’ Meetings. The feedback I get from most Aucklanders is that they want to host the Cup, and accept that to do so we need to invest in the infrastructure needed for the Cup village. The event creates significant opportunities for business and jobs in Auckland and revenue for the country. Our ability to fund this, however, is not open-ended. There needs to be a legacy for the city and an awareness of the need not to intrude more than necessary into the harbour.
53. We are endeavouring to balance these needs. Hosting the Cup and APEC will involve meeting with government the cost of infrastructure needs for the Cup village base. It, together with APEC, will also involve bringing forward infrastructure spending planned for later in the decade. In order to deliver the minimum required infrastructure for these events an additional funding allocation will be required.
54. The future location of Auckland’s port is under consideration with forecast growth meaning it will eventually outgrow its current location. Ports of Auckland recently presented their 30-year plan to enhance capacity and improve the amenity of the area they occupy. Its plans will be subject to the outcome of a study into upper North Island ports and supply chains which will recommend which new infrastructure options will best serve the interests of Auckland, the wider region and New Zealand. I welcome the initiative to undertake this study which will hopefully provide an evidential basis for where Auckland’s port should best be located. In the

meantime, we need to improve facilities for cruise ship berthing to cater for the increasing demand from the ships which bring significant numbers of visitors and spending to our city.

## **Cultural and sporting**

55. While our focus must necessarily be on creating the infrastructure needed for meeting the challenges we face in transport, housing and the environment, we will not overlook other things that make Auckland a desirable place to live. Within the constraints of our resources, we need to promote the innovation, diversity, inclusiveness, cultural and recreational facilities that make Auckland a great place. The arts and cultural sector contributes to the vibrancy and richness of our city.
56. Auckland Council is working in partnership with Maori to bring to life Maori heritage and identity in Tamaki Makaurau, as well as investing in Maori development through various programmes across the Council group.
57. Council needs to deliver better results in a more effective and collaborative way. It has a role to deliver an overarching and integrated programme across the wider Council group that supports Maori outcomes. To do this Council and the CCOs will need to reprioritise existing activities and related funding to focus on Maori outcome areas that are closely aligned with core activities.
58. The Council's CCO Regional Facilities Auckland owns and maintains several stadiums used to hold concerts and sporting events, as well as Auckland Zoo and Auckland Art Gallery. Auckland Council funds the Auckland War Memorial Museum, MOTAT and the Maritime Museum, among other cultural institutions. The cultural review announced earlier this year is intended to provide guidance on how we can get best value for money from our investment across the cultural sector.
59. Further work needs to be done on the future of Eden Park in the context of any proposal for a national stadium. Progress in discussions with the government and the availability of private sector funding will determine the nature and timing of this work and implementation of the regional stadium strategy.

## **Local Board initiatives**

60. Our local boards are responsible for a wide range of local decisions including local place-making and for setting the local board plans for their communities. They play a key role in providing local input into regional strategies, policies and plans. Each of our 21 local boards has put forward one initiative that they consider to be the priority in their area for the next ten years.
61. I support the local board advocacy process and the initiatives will be considered by the public during consultation. The Ten-year Budget will seek to accommodate projects within the constraints of funding available.

## Rating and funding

62. We have difficult decisions to make in setting the rates for the Ten-year Budget. Increased revenue is required to be able to fund the infrastructure Auckland needs. There is a counter-balancing desire to keep general rates rises low and reasonable. While keeping average general rates increases low at 2.5%, targeted rates are a way to fund specific additional programmes of work to deliver defined priority outcomes. Targeted rates provide greater transparency for ratepayers to know what their money is being spent on, and greater accountability through identifying clear outcomes. They also provide clarity for consultation and make it easier to ask Aucklanders what they want to invest in and what they are prepared to pay.

## General rates

63. General rates rises are a result of Council's budget increases. These increases are due to:

- The impact of inflation on the cost of wages, goods and services purchased and increasing demand on services from a growing population.
- Growth in the number of Council assets, such as roads, parks, water infrastructure and community facilities. All new assets result in more ongoing cost to operate them, and also to fund the depreciation costs associated with maintaining them.
- Council's policy to move to fully funding depreciation, meaning that asset renewals can be increasingly paid for from cash rather than debt.
- Interest costs are higher as Council borrows to pay for infrastructure investment.

64. My commitment to keep rates rises low reflects my expectation that Council will control spending and continue to find operational efficiencies. I have introduced the value for money reviews and group shared services initiatives to support these outcomes. We have also set out in the CEO's performance objectives the requirement for restraint in spending on travel and in the area of staffing and salaries.

65. My proposal is that Council's average general rates increase be kept low at 2.5% for the first two years of the Ten-year Budget and then 3.5% after that. This level of increase puts a strong expectation of cost savings on Council, while ensuring that core service delivery is not compromised. The increases of 3.5% from 2020/21 are necessary to ensure prudent fiscal management, to meet Auckland Council's substantial infrastructure investment, particularly the City Rail Link.

## Revaluation

66. Auckland Council's triennial property revaluations for the purposes of rating have been completed. They do not mean increased rating income for Council but may determine whether individual rate rises are more or less than the average, depending on whether the property value has gone up more or less than the average 45% increase in value. In other words, valuations determine how the rates burden is shared between properties and ensure that properties of the same value pay the same amount of general rates.

67. While general rates rises will average 2.5%, there will be some cases where ratepayers may have had substantial increases in property value. Council's mechanisms for providing payment plans and postponements are designed to deal with any problems this may cause for individual

ratepayers. Auckland Council administers the Department of Internal Affairs' rates rebate scheme which provides support for ratepayers on lower incomes.

### **Uniform Annual General Charge (UAGC) and Long-term Differential Strategy (LTDS)**

68. The UAGC is the fixed component of rates and was extensively debated during the last ten-year budget round. As the rating system has now stabilised following the post-amalgamation standardisation process, I am not in favour of reconsidering the level of the UAGC. The UAGC should increase by the same amount as general rates in order to maintain the relativity of fixed and variable charges.
69. The LTDS transitions the current higher proportion of rates paid by business to an amount that reflects the business tax advantage of recouping GST and tax deductibility. For the last annual plan the LTDS was paused for one year to provide rating stability, where all ratepayers received the same 2.5% general rates increase.
70. The LTDS previously agreed by Council will resume. The Interim Transport Levy, which levied low income earners the same as businesses, without any user pays element will, however, be replaced by the regional fuel tax, which will more fairly levy businesses and others according to the level of use they make of our roads.

### **Regional fuel tax**

71. I campaigned on government providing Auckland Council with better tools to fund transport infrastructure investment and am pleased that the new government is working on legislative change to allow Auckland Council to implement a regional fuel tax.
72. A regional fuel tax means that those who use the roads most will pay a share proportionate to their road use. They gain most from increased investment in roads and in alternative public transport and active transport modes which serve to reduce congestion.

### **Water quality targeted rate**

73. I am proposing that the additional funds required to implement the Water Quality Improvement Programme discussed above should come from a specific targeted rate for the Healthy Waters' share of investment. My preference is for a variable charge for both residential and business ratepayers based on a property's capital value, with no differentiation between urban and rural ratepayers. For the average residential ratepayer this would be an amount of about \$66 a year or less than \$1.30 a week.
74. The Water Quality Improvement Programme is a region-wide initiative with projects both in central urban areas as well as rural areas and includes Waiheke Island. While it could be argued that the western isthmus area is where the greatest problem is, they do not contribute any more waste water or stormwater than other areas, and have a system that needs to be brought up to the standards of other newer areas of the city. It is therefore appropriate that this rate is charged on a region-wide basis.
75. A charge based on capital value fairly apportions the rate based on a ratepayer's ability to afford it, rather than a fixed rate which is regressive in nature. I support sharing the burden between residential and business ratepayers at the planned 25.8% differentiated rate in accordance with the Council's LTDS noted above.

76. The annual amount would vary by ratepayer with examples set out below<sup>3</sup>:

	Non-business pays:	Business pays:
<b>Rate (per \$ of CV):</b>	<b>\$0.00006145</b>	<b>\$0.00010690</b>
<b>Property Value:</b>		
\$300,000	\$18.43	\$32.07
\$500,000	\$30.72	\$53.45
\$890,000	\$54.69	\$95.14
<b>\$1,080,000</b>	<b>\$66.36</b>	<b>\$115.46</b>
\$5,000,000	\$307.23	\$534.52
\$10,000,000	\$614.46	\$1,069.04

### Natural environment levy

77. There is much more that we would like to do in the area of environmental protection. The rate for spread of kauri dieback disease in the Waitakere ranges is alarming and we need to do more to endeavour to control it there, and prevent its spread to other areas such as the Hunua ranges. Much more could be done to address damage done by introduced pests like possums, rats and stoats, and to bring weed infestation under greater control.

78. Two options have been put forward. The investment of \$123 million more over a ten-year programme would require an average targeted rate of \$21 a year or 40 cents per week, while an additional \$356 million spend would require a targeted rate of \$60 a year or \$1.15 a week. I propose seeking public feedback on levels of support for either of these two proposals.

79. All Aucklanders benefit from improvements in our natural environment, particularly in our regional parks and our marine reserves. These are the natural assets which make Auckland a beautiful place to live and visit. I therefore support the rate being charged equally across the region.

80. Consistent with the water quality targeted rate, I consider a charge based on capital value fairly apportions the rate based on a ratepayer's ability to afford it, rather than a fixed rate which is regressive in nature. I support sharing the burden between residential and business ratepayers at the planned 25.8% in accordance with the Council's LTDS noted above.

<sup>3</sup> The average residential valuation is \$1,080,000. The median residential valuation is \$890,000.

81. The annual amount would vary by ratepayer with examples set out below:

		Enhanced Protection and Restoration: \$356m		Targeted Protection: \$123m	
		Non-business pays:	Business pays:	Non-business pays:	Business pays:
Rate (per \$ of CV):		\$0.00005559	\$0.00009672	\$0.00001945	\$0.00003385
Property Value:	\$300,000	\$16.68	\$29.02	\$5.84	\$10.15
	\$500,000	\$27.80	\$48.36	\$9.73	\$16.92
	\$890,000	\$49.48	\$86.08	\$17.31	\$30.12
	\$1,080,000	\$60.04	\$104.46	\$21.01	\$36.55
	\$5,000,000	\$277.97	\$483.62	\$97.27	\$169.23
	\$10,000,000	\$555.95	\$967.24	\$194.54	\$338.46

### Rating of online accommodation providers

82. Growth of the online accommodation sector has been significant, with Airbnb properties alone exceeding 10% market share in the last year. There is an equity issue in terms of the rating classification of these properties, many of which are operating as a business but paying lower residential rates.

83. I propose that this be addressed through the update of the Revenue and Financing Policy to determine parameters of what is a commercial accommodation operation. Significant work has been undertaken to analyse data and consider where the parameters should be set. My office has had initial discussions with the main online marketplace providers and intends to continue collaboration to ensure that feedback from the affected ratepayers is canvassed.

84. The proposal is that, depending on the number of days booked, properties where the entire residence is let will be rated as either:

- residential (up to 28 days booked)
- medium-occupancy online accommodation provider (between 29 and 135 days, being rated 75% residential and 25% business) or
- business (over 135 days)

85. Those properties rated as business will be considered to be commercial accommodation providers and therefore, if they are within the geographical zones A and B, will also be subject to the accommodation provider targeted rate as per the current policy. Those properties rated as medium-occupancy online accommodation provider, if they are within the geographical zones A and B, will pay 25% of the accommodation provider targeted rate, consistent with the way in which the general rate will be levied.

86. While this may mean rates increases for some ratepayers, it is important that all businesses pay business rates – there should not be different treatment for those who run a business using an online marketplace.



87. When the governance group for the accommodation provider targeted rate is set up in the next few months, I expect online providers will also be given the opportunity to contribute to this group.
88. I note that, based on the remissions applications for the accommodation provider targeted rate received to date, officers are drafting a specific remissions policy which will be consulted on at a similar time to the proposed Ten-year Budget.

### Summary of rates

Average residential ratepayer with a property value of \$1,080,000

	Average annual amount	Percentage change	Average weekly amount
	\$		\$
<b>2017/18 rates</b>	<b>2,354</b>		<b>45.27</b>
less:			
Interim Transport Levy ending (Note 1)	(114)	(4.8%)	(2.19)
plus:			
General budget rates increase (Note 2)	59	2.5%	1.13
Water Quality targeted rate	66	2.8%	1.27
Natural Environment levy (Note 3)	21	0.9%	0.40
<b>Estimated 2018/19 rates</b>	<b>2,386</b>	<b>1.4%</b>	<b>45.88</b>

*Rates amounts include GST*

Note 1: The Interim Transport Levy will be replaced by a regional fuel tax.

Note 2: The average general rates increase includes the effects of the Long-term Differential Strategy and revaluation changes.

Note 3: Assumes the "targeted protection" programme raising an additional \$123 million

### Non-strategic asset sales

89. Auckland Council owns a number of valuable assets that are not core to Council services because they are commercial services also provided by the private sector. Examples are car park buildings, corporate property, golf courses and holiday parks.
90. In order to increase the levels of funding available for community facilities and city centre and waterfront projects, I'm proposing that councillors consider the managed divestment of some non-strategic assets. In particular, there are likely to be good opportunities for development of the Downtown carpark and the sale of Council's Graham Street property over the next five years.
91. I also support a review of the property disposals process to devise better incentives to affected parties, including local boards, in order to facilitate investment in higher value activity.

## Value for money and efficiency savings

92. Amalgamation of eight Councils was proposed in 2010 in order to create coherent decision-making and rules across the region, and to capture the benefits of scale and size to reduce costs. Hundreds of millions of dollars have been saved as a result compared to the spending plans of separate legacy councils. It has allowed more coherent Auckland planning and standardised Council's core service delivery.
93. The current organisational structure has remained largely untouched since 2010, with the exception of the creation of Panuku Development Auckland in 2015. While many restructures and incremental improvements have been made over time, there are still efficiencies to be gained. The Value for Money review programme is the key tool for realising better quality spending and freeing up savings to be invested in better outcomes and services for Auckland.

## Value for money reviews

94. Council must continue to strive for further efficiency gains, to improve the quality of its services and provide value for ratepayers' money. This year I launched the value for money review programme under section 17A of the Local Government Act to investigate areas where better services and lower costs might be achieved. External subject matter expert advice and an independent review panel are part of the process to ensure that the reviews are thorough and outcomes reliable.
95. The recommendations of the first four reviews were adopted by the Finance and Performance Committee early this month and will be subject to business cases to be developed by the end of February 2018.
96. The reviews identified potential savings that can be made and I expect the ten-year budget to reflect these savings by reducing the relevant departmental budgets. These reductions should be made once the business cases for each recommendation are provided, by no later than 28 February 2018.
97. Future reviews will identify further efficiency savings which will be booked in due course.
98. The current reviews underway are Group Procurement and Parks and Open Spaces Service Management.

## Group shared services

99. The Auckland public has strong expectations of Auckland Council providing professionally-run, effective and efficient services. The delivery of more coordinated and efficient back office functions is a significant part of building trust and confidence in Council by delivering value for money.
100. Group shared services provide an opportunity for improving the effectiveness and efficiency of common activities. EY's Alternative Sources of Financing report from 2015 estimated \$15.2 million savings per annum from shared services in staff costs alone. Officers have provided an initial estimate of savings over the ten-year period of around \$120 million. On this basis, I expect at least \$120m of costs to be reduced from Council parent and CCO budgets over the ten-year period.

## **Auckland Council Investments Limited (ACIL)**

101. I asked for advice on the possibility of disestablishing the Council-controlled organisation of ACIL and the cost savings that may be achieved by reducing the number of CCOs. Based on officers' advice, I support transferring the Auckland International Airport Limited shares and Ports of Auckland Limited shares to Council parent to directly own. ACIL should then be disestablished, with an estimated cost saving of around \$10 million over the ten-year period.
102. Aside from the immediate cost savings other benefits include the potential for closer collaboration with the Council group in procurement and services, likely easier execution of any future port decisions and a better understanding of the port's business by the Governing Body.
103. Ports of Auckland has a commercial mandate under legislation and this should be protected from undue political interference through an agreed Memorandum of Understanding setting out communication protocols, the board appointment process, clear role delineation and a dispute resolution protocol.

ENDS