Date: Tuesday 26 November 2019  
Time: 9:30am  
Meeting Room: Reception Lounge  
Venue: Auckland Town Hall  
301-305 Queen Street  
Auckland

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**Tira Kāwana / Governing Body**

**OPEN ATTACHMENTS**

**ADDITIONAL ATTACHMENTS UNDER SEPARATE COVER**

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**Note:** The attachments contained within this document are for consideration and should not be construed as Council policy unless and until adopted. Should Councillors require further information relating to any reports, please contact the relevant manager, Chairperson or Deputy Chairperson.
Location, location, location
The value of having a port in the neighbourhood

NZIER report to Ports of Auckland Limited
October 2019
About NZIER

NZIER is a specialist consulting firm that uses applied economic research and analysis to provide a wide range of strategic advice.

We undertake and make freely available economic research aimed at promoting a better understanding of New Zealand's important economic challenges.

Our long-established Quarterly Survey of Business Opinion (QSBO) and Quarterly Predictions are available to members of NZIER.

We pride ourselves on our reputation for independence and delivering quality analysis in the right form and at the right time. We ensure quality through teamwork on individual projects, critical review at internal seminars, and by peer review.

NZIER was established in 1958.

Authorship

This paper was prepared at NZIER by Milad Maralani, Eugene Isack and Peter Wilson.

It was quality approved by Laurie Kublak.

The assistance of Ports of Auckland Limited, Sarah Spring and Jessica Mathewson is gratefully acknowledged.
Key points

There has always been a port in downtown Auckland. This gives firms in Auckland a competitive advantage: the final leg of an import journey is a short one, as is the first leg of an export journey.

Using NZIER’s comprehensive model of the New Zealand economy, we have undertaken an innovative exercise to value that proximity.

We ask what the economic cost to New Zealand would be if all the imports and exports that currently enter or leave the country though the downtown Port of Auckland (the Port) had to be moved by road or rail to their destination from another port in New Zealand.

This cost can be interpreted as the benefit that the New Zealand economy receives from having a port located in the centre of its largest city.

This estimate allows us to supplement more traditional measures of the economic impact of the Port.

The Port provides income to its owner

Ports of Auckland Ltd (POAL) is a company undertaking a business in Auckland. Its direct contribution to the Auckland economy is its earnings before interest, taxes, depreciation and amortization (EBITDA) as recorded in the company’s financial accounts. If the Port did not exist, the Port’s owners (Auckland Council) would forgo approximately $100 million per year (average over the last five years).\(^1\)

The Port and its employees contribute to the local economy

POAL employs people to undertake its operations. Adding compensation paid to employees ($58 million per year on average over the last five years) to EBITDA measures the direct contribution that the Port makes to the Gross Domestic Product (GDP) of Auckland and the country.

If the Port did not exist, the economy would have been smaller by approximately $158 million per year over the last five years.

The Port adds value to its customers

The largest, and most difficult to measure contribution that the Port makes is through the services that it provides to its customers. The location of the Port is fundamental to understanding these wider impacts.

People use the Port because it is the most cost-effective way of all the alternatives to move goods into and out of Auckland and New Zealand. If it wasn’t, they would use an alternative.

Auckland is both the largest source of import demand in New Zealand, and the largest concentration of commercial activity. An equally profitable port elsewhere, employing the

\(^1\) The Port has paid the Auckland Council a dividend of ~$50 million per annum in recent years.
same number of people, would have a similar direct effect on its local economy, but its wider economic effect, would depend on how efficiently their customers’ exports and imports moved from the port to their doors.

We have modelled three scenarios to estimate this impact. In each scenario we assume that the activity currently handled by the Port has moved elsewhere. The three scenarios are:

- Port of Tauranga (PoT). Move the Port’s activity to Tauranga and use the roads to transport products to Auckland
- Northport. Move the Port’s activity to Whangarei and use road to transport products to Auckland
- Rail. Move the Port’s activity to either Tauranga or Whangarei and use rail to transport products to Auckland.

The benefits of proximity

Instead of imported goods crossing the wharf in the central business district in Auckland, they first have to be shipped to PoT and then returned to Auckland via road, the national economy (measured by GDP) would be approximately $1.5 billion smaller per year. Most of that burden would fall on the Auckland region ($1.3 billion per year), with the Waikato region experiencing a negative impact of $79 million per year.

If Northport was used instead, and again with road transport being the alternative, national GDP would fall by approximately $1.3 billion. Auckland region’s GDP would fall by $1.2 billion, while Waikato region’s GDP would be $68 million smaller.

If the imported goods were transported by rail from either Northport or Tauranga back to Auckland, national GDP would fall by approximately $1.3 billion. Auckland region’s GDP would fall by approximately $1.1 million.

It is likely that transport from either Northport or Tauranga back to Auckland would be by a mix of rail and road, so the true cost lies within these ranges.

Table 1: The location of the Port has national economic impacts
Change in GDP, in millions of dollars per annum

<table>
<thead>
<tr>
<th>Economic indicator</th>
<th>PoT</th>
<th>Northport</th>
<th>Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption</td>
<td>-$1,132</td>
<td>-$570</td>
<td>-$541</td>
</tr>
<tr>
<td>Investment</td>
<td>-$262.0</td>
<td>-$231.0</td>
<td>-$221.0</td>
</tr>
<tr>
<td>Exports</td>
<td>-$140.0</td>
<td>-$129.0</td>
<td>-$124.0</td>
</tr>
<tr>
<td>Imports</td>
<td>131.0</td>
<td>130.0</td>
<td>108.0</td>
</tr>
<tr>
<td>Nominal GDP</td>
<td>-$1,530</td>
<td>-$1,336</td>
<td>-$1,292</td>
</tr>
</tbody>
</table>

Source: NZIER

The location of the Port is worth about $1.4 billion dollars a year
As well as these economic effects, moving the Port would also have environmental and social impacts. Longer and more frequent road or rail trips would be required to bring imports to their ultimate destination or to the Port for exporting. This would lead to higher greenhouse gas emissions.

**Table 2 Alternative ports increase greenhouse gas emissions**
Tonnes of CO2 emitted by using alternative ports per annum

<table>
<thead>
<tr>
<th>Alternative port</th>
<th>Road</th>
<th>Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>PoT</td>
<td>212,862</td>
<td>169,868</td>
</tr>
<tr>
<td>Northport</td>
<td>151,075</td>
<td>121,461</td>
</tr>
</tbody>
</table>

Source: NZIER

**This study is not a cost benefit analysis**

The benefit figure given above represents our estimate of the impact on GDP of the additional cost consumers would bear if the imports currently handled by the Port of Auckland were transported to Auckland from other locations. Consumers do not bear this cost at the moment, so the GDP impact of this avoided cost is the benefit of the Port at its current location. We have selected PoT and Northport as the alternative locations, as they are the closest operating ports to Auckland. If the same analysis were made from a different alternative location, the cost avoided and therefore the GDP impact and locational benefit of the current state would be different. One much-discussed alternative would be a new Port somewhere in Auckland.

The objective of this study has been to isolate the locational benefit of the Port of Auckland at its current site. It is not a cost benefit exercise, designed to establish whether an alternative location would confer net benefits on the New Zealand economy. A cost-benefit analysis would need to recognise that much of the additional cost imposed upon consumers would represent extra revenue for the freight sector. In simple terms, the costs borne by consumers would be partially offset by benefits to the freight and related sectors.

We have not modelled this offset. Doing so would have meant undertaking a complete cost benefit study, and we lack the information at present to do this is in a robust, defensible way. In order to undertake a cost-benefit analysis we would need to know precisely what location was being compared to Auckland, what investments will be needed to bring the alternative location into use, and how the operating costs of the new location compare with the status quo in Auckland. At present, we only have confidence in how some of the operating costs (the cartage costs) from Northport and the PoT compare with those at Auckland, so we have used those as the basis for our analysis.

The extra spending in the transport sector does not affect the GDP result presented here. The extra spending is intermediate consumption, that is, it is a benefit to transport businesses but a cost to final consumers. The Computable General Equilibrium (CGE) modelling we have used to calculate the GDP impact nets off these effects.

**A preliminary examination**

Our methodology undoubtedly underestimates the value of the location of the Port to the New Zealand economy, because we have assumed a costless transfer of business to other
ports. Recovering the cost of any additional infrastructure needed to handle the increased load in those ports would increase the cost even more.

**Additional infrastructure investment**

As noted above, our analysis does not consider the additional investment needed to bring an alternative port location into use. The precise size of such an investment depends on the location chosen and the characteristics of the infrastructure already present in the links in the supply chain between the new location and the location of final demand for the imports.

We can derive an idea of the sums that could be involved from the recently released Report of the Upper North Island Supply Chain Strategy Working Group,

which gives a total of $3.9 billion for the road and rail investments needed if the Port of Auckland’s cargo task were to be moved to Northport. We note that the $1 billion listed as the cost of upgrading the Avondale to Southdown rail link was estimated at $2 billion to $3 billion by KiwiRail when communicating with NZIER on the 2017 Future of New Zealand’s vehicle supply chain study.

These figures can be taken to indicate the possible level of investment needed if an alternative port location were identified within the Auckland region.

**Road versus rail**

The cost comparisons do not account for double handling at each railhead at each end of the rail line, the flexibility that the road cartage offers to deliver vehicles at different locations without double handling, and the cost of the lack of coordination between rail and the trucks at each end of the rail line. Cartage by rail is more complex than cartage by road. Cargo needs to be loaded on to a train, taken to a railyard, offloaded, reloaded on to a truck and then driven to its destination. Each step adds cost and time.

**Location, location, location**

That Auckland is served by an efficient port is a benefit to the economy. That it is served by a port located in the centre of the city is an additional benefit.

An equally profitable port, employing the same number of people, anywhere in Auckland would have about the same direct economic effect on the Auckland economy.

But its wider economic effect, compared to the status quo, would depend on how efficiently customers’ exports and imports are moved from the port to their door.

**Table 3 Removing the Port has high costs to the Auckland region**

<table>
<thead>
<tr>
<th>Economic indicator</th>
<th>PoT</th>
<th>Northport</th>
<th>Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption</td>
<td>-$1,215</td>
<td>-$1,056</td>
<td>-$1,024</td>
</tr>
<tr>
<td>Investment</td>
<td>-$441</td>
<td>-$381</td>
<td>-$371</td>
</tr>
<tr>
<td>Exports</td>
<td>-$1,013</td>
<td>-$884</td>
<td>-$858</td>
</tr>
</tbody>
</table>

---

<table>
<thead>
<tr>
<th>Economic indicator</th>
<th>PoT</th>
<th>Northport</th>
<th>Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports</td>
<td>$626</td>
<td>$549</td>
<td>$533</td>
</tr>
<tr>
<td>Nominal GDP</td>
<td>-$1,339</td>
<td>-$1,177</td>
<td>-$1,143</td>
</tr>
</tbody>
</table>

**Figure 1: Our report in a nutshell**

Source: NZIER
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1 Introduction

The downtown port in Auckland serves New Zealand’s largest and fastest growing centre of economic activity. In 2018, over $30 billion worth of cargo was shipped across its wharfs. Ports of Auckland (POAL) has asked NZIER to estimate its economic impact.

1.1 The Port in Auckland

The Waitematā Harbour, the ‘sea of sparkling waters’, dominates central Auckland. In late 1840, the capital of the young colony of New Zealand was moved from Russell in the North to Auckland due to its central location and natural harbour. From crude wharfs on large tidal mudflats at Official Bay and Commercial Bay, Auckland established itself as a hub of a growing overseas and coastal maritime trade.

Figure 2 Auckland and its port, 1886

![Auckland and its port, 1886](image)

Source: Auckland Libraries Heritage Collections Map 4641

As the city grew, so did the Port of Auckland (the Port). As waves of technological change revolutionised sea transport, the Port has continued to change its mode of operation, to its currently highly efficient modes of operation.
1.2 POAL is growing
The volume of cargo going across the Port has steadily been growing since 1988.

**Figure 3** The volume of cargo at POAL has increased

Source: Ministry of Transport

In terms of the economic contribution of the Port to New Zealand, the value of cargo crossing the wharfs at the Port has grown faster than the volume, especially on the imports side.

**Figure 4** Annual value of imports at POAL is growing

Source: Stats NZ
1.3 An import port

As the previous two figures show, the Port handles more imports than exports. This has important implications for the estimation of the economic contribution the Port makes to Auckland and New Zealand.

The value the Port adds to imports is the swift passage of goods across the wharf, through Customs and other processing, and then on to the importer.

The Port’s proximity to the destination and the efficiency of transport links out of the Port, matter.

1.4 Types of cargo

In 2018, the Port had visits from 1,200 vessels, with container ships comprising over half (54%) of all inbound and outbound vessels. Vehicle shipments accounted for the second most common purpose for vessels docking at the Port (17%).

**Figure 5 Container vessels are the majority of POAL visitors**

![Graph showing container vessels as the majority of POAL visitors from 2014Q1 to 2018Q1](image)

*Source: Ministry of Transport*

1.4.1 Containers

Today, especially in Auckland, containers are the largest type of freight. Container operations at the Port are concentrated on the Fergusson Container Terminal.

Containers, the metal boxes loaded on and unloaded from ships, are designed and built for intermodal freight transport, meaning these containers can be used across different modes of transport – from ship to rail to truck – without unloading and reloading their cargo.

Containerisation has revolutionised sea transport and ports. Ships are far larger, but loading and unloading, now undertaken using large cranes and straddle carriers, is much faster. An important consequence is that fewer people are employed at ports loading and unloading unitised cargo such as containers and, importantly, cargo is moved in containers to
destinations that are far removed from the port. Other non-unitised cargoes such as vehicles, and break bulk require more people to load and unload them, and as land transport within New Zealand is often limited to road it is far more difficult to transport non-unitised cargo by rail. The days when the immediate area surrounding a port were busy areas of trade and port-related activity are over. This has, as a result, led many cities to consider regenerating land and buildings left vacant as port activity shrinks down to the footprint of the port itself.

**Figure 6 POAL loaded and discharged 820,000 TEUs in 2018**

![Graph showing POAL loaded and discharged 820,000 TEUs in 2018](image)

Source: Ministry of Transport

Containers processed at the Port include a range of 20-foot and 40-foot units. Containers are commonly expressed as TEUs or twenty-foot equivalent units for comparison purposes. In 2018, 820,000 TEUs were handled by POAL at the Fergusson Container Terminal.³

### 1.4.2 Bulk cargo

Bulk cargo comprises commodity cargo that is transported unpackaged in large quantities, such as petroleum/crude oil, grain, coal, or gravel. This cargo is usually dropped or poured, with a grab, spout or shovel bucket, into a bulk carrier ship’s hold. POAL handles over half a million tonnes of cement annually and smaller quantities of bulk cargo like scrap steel, grains, sand and gypsum. POAL’s bulk trade is particularly important for the Auckland construction industry.

³ The Ministry of Transport figures presented above ignore the containers handled by POAL’s multi-cargo wharfs, which amount to more than 100,000 TEUs per annum. The true figure of total TEUs loaded and discharged in 2018 is therefore above 920,000 TEUs.
1.4.3 General cargo

Finally, there is ‘break bulk cargo’ or general cargo, that comprises goods that must be loaded individually. This includes cars and other vehicles, which in Auckland are landed from roll-on/roll-off ships.

Handling break bulk cargo is labour-intensive, as it requires individual items to be moved (although sometimes break bulk cargo will be loaded onto pallets before being placed in the hold of a ship). Break bulk cargo might also need to be handled multiple times before it is placed on a ship. For example, it might be unloaded from a truck into a warehouse, and then onto pallets and then to a dock for loading onto a ship. The same may happen in reverse when break bulk cargo is unloaded.
1.4.4 Passengers

Ports are also still used for passenger transport, although the days of the ocean liner are long gone. Today, cruise ships, which carry tourists, call at many ports in New Zealand.
1.5 **POAL is very profitable**

As a business POAL performs well. Revenues have averaged $228.6 million over the last five years and profit before tax has averaged $63.3 million and EBITDA $100 million over the same period. POAL provide a sizeable dividend and appears to be on track to meet the financial targets set for it by Auckland Council.

<table>
<thead>
<tr>
<th>Item</th>
<th>2017</th>
<th>2018</th>
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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$222,368</td>
<td>$243,201</td>
</tr>
<tr>
<td>Expenses</td>
<td>$119,622</td>
<td>$142,110</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>$60,302</td>
<td>$83,996</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>$49,860</td>
<td>$53,667</td>
</tr>
</tbody>
</table>

Source: Ports of Auckland Ltd's, Annual report 2018
2 What is the value of a port?

The Port has three main economic impacts, each of which needs to be considered in a different way.

2.1 The Port as a company

POAL is a company owned by the Auckland Council. The direct contribution of a port to an economy can be easily calculated from its financial accounts. Earnings Before Interest, Taxes, Depreciation and Amortisations (EBITDA) is the appropriate measure, as it shows the earnings that can be distributed to various uses (dividends, interest to lenders, retained to finance investment). This contribution is available in the financial accounts of the company.

On average, POAL contributed $100 million per annum to its owners over the last five financial years

2.2 The Port as part of the economy

POAL undertakes most of its business in Auckland. Its direct contribution to the Auckland economy can also be measured from its financial accounts. At the social level, EBITDA plus compensation of employees represents the amount a company and its employees contribute to the total economy (on the assumption that it is either consumed or saved). This contribution is also available in the financial accounts of the company. Over the last five years POAL has on average paid its employees $58 million per annum in wages and salaries.

On average, POAL company contributed $158 million per annum directly to the Auckland economy over the last five financial years

2.3 The Port adds value to its customers

The largest, and most difficult to measure contribution that the Port makes is through the services that it provides to its customers. People use the Port because it is the most cost-effective way of all the alternatives to move goods into and out of Auckland and New Zealand.

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4 As well as the downtown port, POAL has freight hubs in South Auckland, the Waikato, the Bay of Plenty and Manawatu.
Traditional measures of this value estimate the economic contribution of a port by calculating the value added of the firms that ship goods through a port. They do this by using data from Stats NZ that allows the calculation of how the operations of one firm impacts on all other firms in the economy. This technique is often referred to as I/O (input/output) analysis or multiplier studies. While often not stated explicitly, an I/O analysis would imply that the port simply ceases to exist, and no alternative means of transportation is employed. That is, the value being measured is the value of the final products made using the port, rather than the value-added by the port itself, in its current location. That is not to say that this value added isn’t significant or important. POAL have stated publicly that users of their services contribute $15 billion to the national economy each year and employ over 700,000 people.

In this report, we have taken a different approach, using a different modelling technique to focus on the benefits of the location of the Port.

2.4 A thought experiment; life without the Port of Auckland

We asked what would be the economic cost to New Zealand if, rather than using the Port, all imports passing across the wharves in downtown Auckland had to use another port?

We must stress that this is a thought experiment, rather than a precise forecast of alternative infrastructure arrangements. For example, our experiment assumes that existing ports can immediately handle any increase in capacity, as can the road and rail networks.

Our purpose in undertaking this modelling is to estimate the value that Auckland and the nation receives from having a port located where it is, not as a way of estimating the benefit of the transport itself.

2.4.1 A robust modelling technique

We have used our Computable General Equilibrium (CGE) model to undertake this thought experiment.

Using actual economic data, CGE models estimate how an economy reacts to major projects or changes in policy, technology or other external factors. CGE models are useful whenever we wish to estimate the effect of changes in one part of the economy upon the rest of New Zealand.

In summary, to estimate the effect of some change (referred to as a “shock”), the modeller specifies a starting position for the economy based on data in which supply is equal to demand in all markets (known as being “in equilibrium”), changes parts of the data to reflect the shock and then, using a highly detailed model of the economy and specialised software, determines what needs to happen to return the economy to a new equilibrium.

To allow the model to achieve a new equilibrium, some aspects of the economy must remain fixed. These are known as the closures. Common closures, for example, are population and the labour force, the exchange rates, interest rates or export prices. Determining what should be included in the closure and what should be allowed to vary is a key part of any modelling exercise and it is very important that the modeller be very

transparent about what is a result of the modelling and what has been imposed via the closure.

The difference between the old and the new equilibrium can then be analysed to determine the effect of the shock on a range of economic indicators, like Gross Domestic Product (GDP), employment, wages and living standards.

CGE models are now our preferred method for assessing economic impacts and are used extensively in New Zealand and internationally. As a recent commentary noted regarding CGE modelling “a well-designed model that is used by skilled practitioners to shed light on issues the model was designed to illuminate can make a significant contribution to policy debates and decision making”.

2.4.2 The model we used

For this exercise, we have used our regional CGE model, NZ-TERM. The model is described in more detail in Appendix A. The model includes 106 industries and 201 commodities in its standard form. For reporting purposes, we aggregate the 106 industries into 47 broader sectors, as this makes the presentation easier to follow.

What we have modelled is the effect on regional and national GDP if all the freight now crossing the Port had to be transported some other way.

This approach is an extension, albeit a major one, of the approach we used to determine the value of car imports over Bledisloe Wharf, were we modelled the costs to consumers of having to import vehicles from either Northport or the PoT.

2.4.3 Shock design

Our NZ-TERM CGE model is a static model. That means we can only look at the economic impacts of the Port in a representative year, rather than tracking it across years and seeing how the economy adjusts each year. Essentially, we compare the ‘before’ situation (having the Port) with the ‘after’ (moving the Port to another location).

We have designed three scenarios to capture the impact of moving the Port to either Tauranga (PoT) or Whangarei (Northport) and using road or rail to transport goods to their final destination. We have selected PoT and Northport as they are the closest operating ports to Auckland where the largest demand for goods and products in New Zealand comes from.

To measure the economic impact of the Port we assume moving the Port to another location will add extra costs of trade for both exporters and importers. Therefore, we impose two shocks at the same time to the model.

- **Export shock**: a negative shock to the exports of Auckland region, simply removing the export value from the Port in Auckland. This negative shock is not imposed on products using Auckland airport as a gateway for exports.

- **Import shock**: using another port is like increasing the price of products imported through the Port. To measure this, we need to assume that other closer ports to Auckland have the capacity of operation and we only add the extra cost of

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7 Future of New Zealand’s vehicle supply chain, 2017.
transportation to containers and bulk products to move imported products to the current location in Auckland (Waitemata seaport).

There are two ways of increasing an import price in the region. The first method is to impose an import tariff and the second way is to increase the delivered price of products to the region through a variable called an ‘import augmenting technological variable’.

Although imposing an import tariff increases the price of imported goods, they also generate revenue for the government. So, modelling the location shift as a tariff would require a complicated adjustment to account for this revenue and its welfare effects (that is, we would have to make an assumption about what the government does with the revenue and what effect this has).

An import augmenting technological variable is akin to adding ‘sand in the wheels’ of trade. Use of this variable changes the delivered price of a product as a result of an efficiency loss/gain in trade facilitation for consumers in a region. For example, the imported price of products in Auckland increases as we lose some efficiency in port handling. Therefore, an import augmenting technological variable is more appropriate to use when we are talking about trade facilitation and helps us to avoid misunderstanding the welfare effect. We used this approach to calculate the shocks in the various scenarios we modelled.

Table 5 We tested three scenarios

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PoT</td>
<td>Move the Port to Tauranga and use road to transport products to Auckland</td>
</tr>
<tr>
<td>Northport</td>
<td>Move the Port to Whangarei and use road to transport products to Auckland</td>
</tr>
<tr>
<td>Rail²</td>
<td>Move the port to either Tauranga or Whangarei and use rail to transport products to Auckland</td>
</tr>
</tbody>
</table>

Notes
1 Cost of transportation from either Tauranga or Whangarei to Auckland is similar according to data provided by POAL.
Source: NZIER

2.5 Results

Not surprisingly, these shocks have a negative impact.

When interpreting these results, it is important to remember that we are not adjusting the amount of goods that are imported into New Zealand. What we are doing is estimating the increase in costs of importing to a more distant port and then transporting the goods to their destination.

By using our CGE model, we can see the effects as these cost increases ripple through the whole economy.

We focus on key macroeconomic metrics particularly, GDP and its components including consumption (as a measure of household welfare), investment, and imports and exports.

Table 6 shows changes in macroeconomic aggregates at the national level for the three scenarios. Detailed regional results across these metrics are shown in Appendix B.

The bottom-line figure is GDP, which is a measure of the value of all goods and service produced in New Zealand (less imports).

**Table 6  Macroeconomic impacts at the national level**

Millions of dollars

<table>
<thead>
<tr>
<th>Economic indicator</th>
<th>PoT</th>
<th>Northport</th>
<th>Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption</td>
<td>-$1,112</td>
<td>-$970</td>
<td>-$941</td>
</tr>
<tr>
<td>Investment</td>
<td>-$262</td>
<td>-$231</td>
<td>-$221</td>
</tr>
<tr>
<td>Exports</td>
<td>-$140</td>
<td>-$129</td>
<td>-$124</td>
</tr>
<tr>
<td>Imports</td>
<td>$113</td>
<td>$110</td>
<td>$108</td>
</tr>
<tr>
<td>Nominal GDP</td>
<td>-$1,530</td>
<td>-$1,336</td>
<td>-$1,292</td>
</tr>
</tbody>
</table>

Source: NZIER

**2.5.1 What the results show**

We use the example of consumption to explain the results in more detail.

Consumption falls because of the increase in price of imported goods and the effect that this has through the economy. Goods and services that use imported goods (for example, courier services that use imported delivery vans) will face increase costs that will influence demand for those services. Restaurants that use imported ingredients will also face cost increases.

Using the regional breakdown of results produced by the NZ-TERM model, we can see that it is not just the people and businesses of Auckland that would be affected by the closure of the Port.

As Table 7 shows, consumption in Northland and Waikato also falls. This is due to the ripple effects of increasing costs for everyone that use goods and services that, at least in part, are transported through Auckland. The increase in consumption in Wellington is an example of the effect of the shocks on relative prices through the country. Goods and services that do not use imported components become relatively cheaper. Demand for them will increase.
Table 7 Consumption changes by region
Millions of dollars

<table>
<thead>
<tr>
<th>Area</th>
<th>PoT</th>
<th>Northport</th>
<th>Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northland</td>
<td>-$4</td>
<td>-$4</td>
<td>-$4</td>
</tr>
<tr>
<td>Auckland</td>
<td>-$1,215</td>
<td>-$1,056</td>
<td>-$1,024</td>
</tr>
<tr>
<td>Waikato</td>
<td>-$4</td>
<td>-$4</td>
<td>-$4</td>
</tr>
<tr>
<td>Bay of Plenty</td>
<td>$2</td>
<td>$1</td>
<td>$2</td>
</tr>
<tr>
<td>Wellington</td>
<td>$42</td>
<td>$36</td>
<td>$34</td>
</tr>
</tbody>
</table>

Source: NZIER calculations

2.6 What then, is the value of the Port of Auckland?
By the traditional measure of profits and incomes of workers, the Port adds $99.5 million and $58.4 million, respectively to the economy.

By far the largest contribution, however, is from the value added by users of the Port’s services.

Using our thought experiment approach, we estimate that the location of the Port adds between $1.4 and $1.6 billion dollars to the economy each year.

Table 8 The economic contribution of the Port per annum
Millions of dollars

<table>
<thead>
<tr>
<th>Economic indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>$99.5</td>
</tr>
<tr>
<td>EBITDA plus compensation of employees</td>
<td>$58.4</td>
</tr>
<tr>
<td>Value added</td>
<td>$1,654.69--$1,403.13</td>
</tr>
</tbody>
</table>

Source: Ports of Auckland Ltd, NZIER calculations

2.7 Other effects of location
The results above show the effect of the location of the Port on a range of economic indicators.

As well as these economic effects, moving the Port would also change the environmental and social impacts of importing and exporting. Longer and more frequent road or rail trips would be required to bring imports to their ultimate destination or to the Port for exporting. We looked at two: greenhouse gas emissions and the number of trucks on the road.
Table 9 Alternative ports increase greenhouse gas emissions

<table>
<thead>
<tr>
<th>Alternative port</th>
<th>Road</th>
<th>Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>PoT</td>
<td>212,862</td>
<td>169,868</td>
</tr>
<tr>
<td>Northport</td>
<td>151,075</td>
<td>121,461</td>
</tr>
</tbody>
</table>

Source: NZIER

To put these figures in context, the Port emitted 14,894 tonnes of CO₂ from its operations on the waterfront in 2018-19.⁹

3 Location, location, location

This report has assessed the economic benefits that the Auckland region and New Zealand receive from the location of the Port.

3.1 Location advantage

That Auckland is served by a port located in the centre of the city is of considerable benefit to the city and the national economy.

An equally profitable port, employing the same number of people, anywhere in Auckland would have about the same direct economic effect on the Auckland economy. Likewise, an equally profitable port, employing the same number of people anywhere in New Zealand would make the same contribution to the national economy.

But adding value to customers is not just a function of how efficiently goods can be moved off ships and out of the port precinct. The transportation of those goods to their final destination is also important.

The introduction of the issue of location makes the results more plausible and is also of considerable interest to discussions about the costs and benefits of a downtown port. The location of the Port and any alternative and the enduring effects of moving the Port, not just the one-off costs, need to be considered together.

3.2 Alternative locations

What this report has not considered in any detail is the much wider question of where ports in the upper North Island should be located.

There have been many studies over the last 20 years that have considered this issue, at least in part.

Moving the Port would allow land to be used for other purposes, but it would involve two separate issues: the costs of building a new port and the attendant infrastructure, and the additional costs and benefits of moving goods from the new port to their destination. Both elements will need to be factored into any calculations. A port on the Manukau Harbour, for example, might involve lower transport costs for importers located in and around the

⁹ We have no data on the amount of CO₂ emitted from transporting freight to and from the Port by road.
industrial areas of south Auckland, but might add costs for transporting goods to the north and west of the city.
Appendix A Our CGE model

A.1 Description of the model

We used our NZ-TERM (“The Enormous Regional Model”) CGE model of the New Zealand economy and its regions for this economic impact analysis.

NZIER’s NZ-TERM has been built in consultation with CGE experts at Centre of Policy Studies (COPS) which is now based at Victoria University, Melbourne. COPS is well-regarded internationally and recognised as a world leader in CGE modelling.

A CGE model works by using data to describe the economy in a benchmark year, and then specifying hundreds of mathematical equations to represent the relationships between data values. The model includes 106 industries, 201 commodities and 15 regions, including the Auckland regional economy.

For this modelling exercise, we map the 201 commodities into 99 commodity groups to match with harmonised system level 2 (HS2) to analyse the trade impact of the Port.

NZ-TERM is a bottom-up regional CGE model which treats each region as a separate economy. All regions are linked via inter-regional trade in commodities and movements in labour and capital. The model captures the various inter-linkages between sectors, as well as their links to households (via the labour market), the government sector, capital markets and the global economy (via imports and exports). Key features of the model are:

- Each industry can produce a number of different commodities
- Production inputs are intermediate commodities (domestic and imported) and primary factors (labour, land and capital)
- The demand for primary factors and the choice between imported and domestic commodities are determined by Constant Elasticity of Substitution (CES) production nests. This means an increase in price of one input shifts sourcing towards another input
- Intermediate goods, primary factors and other costs are combined using a Leontief production function. This means the proportion of production inputs is held constant for all levels of output
- The production mix of each industry is dependent on the relative prices of each commodity. The proportion of output exported or consumed domestically is also dependent on relative prices
- Within each region, any changes to the economy have multiple direct and indirect (flow-on) impacts, including beyond the sectors initially affected. So, changes to the Auckland economy due to removing the Port from Auckland will, themselves, flow on to other regions.

Price changes (e.g. wage increases, shifts in the exchange rate) as a result of a change to the regional economy in one sector also affect all other sectors, both within the region and across the rest of the country. The method allows us to model the effects of the Port on the Auckland and New Zealand economies and identify how the removal of the Port impacts those regional economies, including impacts on upstream and downstream sectors.
A visual representation of NZ-TERM is shown in Figure 10. It highlights the complex and multidirectional relationships between the various parts of each regional economy and how they interact with other New Zealand regions and rest of the world.

Figure 10 CGE models show the whole economy

A.2 The modelling database

The database has been sourced initially from Stats NZ’s 2013 Inter-industry tables. We prepared regional input-output tables using regional employment data and regional population estimates.

We updated the 2013 Input-Output table to 2018 using the latest national accounts data for the year ended March 2018.

Trade data at the port level were obtained from Stats NZ imports/exports dataset for 2018. More granular data about the number of containers and bulk products were taken from POAL’s 2018, Annual report. Also, POAL provided transportation costs of moving containers and bulk products.
Appendix B Results

We now present the detailed results of our modelling across a range of indicators across the regions.

B.1 Regional macroeconomic results

A change in consumption is the aggregate impact of change in the prices and quantities of goods and services demanded. In some regions this impact is negative as both price and quantity have decreased. But in some regions the mixed effect increases consumption. For example, in PoT scenario, the consumption change in Wellington due to price is -$35 million while the quantity of consumption increased by $77 million, therefore the mixed effect results in a $42 million increase in the consumption in the region.

Changes in investment, exports and imports are all due to the mix of change in the price and quantity in all the regions.

B.1.1 Consumption

Table 10 Consumption changes by region

<table>
<thead>
<tr>
<th></th>
<th>PoT</th>
<th>Northport</th>
<th>Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northland</td>
<td>-$4</td>
<td>-$4</td>
<td>-$4</td>
</tr>
<tr>
<td>Auckland</td>
<td>-$1,215</td>
<td>-$1,056</td>
<td>-$1,024</td>
</tr>
<tr>
<td>Waikato</td>
<td>-$4</td>
<td>-$4</td>
<td>-$4</td>
</tr>
<tr>
<td>Bay of Plenty</td>
<td>$2</td>
<td>$1</td>
<td>$2</td>
</tr>
<tr>
<td>Wellington</td>
<td>$42</td>
<td>$36</td>
<td>$34</td>
</tr>
<tr>
<td>Rest of North Island</td>
<td>$4</td>
<td>$4</td>
<td>$4</td>
</tr>
<tr>
<td>South Island</td>
<td>$62</td>
<td>$53</td>
<td>$53</td>
</tr>
<tr>
<td>National</td>
<td>-$1,113</td>
<td>-$979</td>
<td>-$941</td>
</tr>
</tbody>
</table>

Source: NZIER calculations
B.1.2 Investment

Table 11 Investment changes by region
Millions of dollars

<table>
<thead>
<tr>
<th></th>
<th>PoT</th>
<th>Northport</th>
<th>Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northland</td>
<td>$6</td>
<td>$5</td>
<td>$5</td>
</tr>
<tr>
<td>Auckland</td>
<td>-$441</td>
<td>-$354</td>
<td>-$371</td>
</tr>
<tr>
<td>Waikato</td>
<td>$14</td>
<td>$12</td>
<td>$12</td>
</tr>
<tr>
<td>Bay of Plenty</td>
<td>$12</td>
<td>$11</td>
<td>$11</td>
</tr>
<tr>
<td>Wellington</td>
<td>$53</td>
<td>$46</td>
<td>$44</td>
</tr>
<tr>
<td>Rest of North Island</td>
<td>$24</td>
<td>$19</td>
<td>$19</td>
</tr>
<tr>
<td>South Island</td>
<td>$70</td>
<td>$60</td>
<td>$59</td>
</tr>
<tr>
<td>National</td>
<td>-$262</td>
<td>-$231</td>
<td>-$221</td>
</tr>
</tbody>
</table>

Source: NZIER calculations

B.1.3 Government

Table 12 Changes in the size of government by region
Millions of dollars

<table>
<thead>
<tr>
<th></th>
<th>PoT</th>
<th>Northport</th>
<th>Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northland</td>
<td>-$4</td>
<td>-$4</td>
<td>-$3</td>
</tr>
<tr>
<td>Auckland</td>
<td>-$9</td>
<td>-$9</td>
<td>-$9</td>
</tr>
<tr>
<td>Waikato</td>
<td>-$13</td>
<td>-$12</td>
<td>-$11</td>
</tr>
<tr>
<td>Bay of Plenty</td>
<td>-$9</td>
<td>-$8</td>
<td>-$8</td>
</tr>
<tr>
<td>Wellington</td>
<td>-$25</td>
<td>-$22</td>
<td>-$21</td>
</tr>
<tr>
<td>Rest of North Island</td>
<td>-$22</td>
<td>-$18</td>
<td>-$18</td>
</tr>
<tr>
<td>South Island</td>
<td>-$47</td>
<td>-$40</td>
<td>-$40</td>
</tr>
<tr>
<td>National</td>
<td>-$129</td>
<td>-$113</td>
<td>-$110</td>
</tr>
</tbody>
</table>

Source: NZIER calculations
B.1.4 Cost of Exports

Note that negative numbers in this table indicate an increase in the cost of exports.

Table 13 Changes in the cost of exports by region
Millions of dollars

<table>
<thead>
<tr>
<th>Region</th>
<th>PoT</th>
<th>Northport</th>
<th>Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northland</td>
<td>$56</td>
<td>$47</td>
<td>$46</td>
</tr>
<tr>
<td>Auckland</td>
<td>-$1,033</td>
<td>-$684</td>
<td>-$858</td>
</tr>
<tr>
<td>Waikato</td>
<td>$83</td>
<td>$71</td>
<td>$70</td>
</tr>
<tr>
<td>Bay of Plenty</td>
<td>$69</td>
<td>$58</td>
<td>$57</td>
</tr>
<tr>
<td>Wellington</td>
<td>$203</td>
<td>$175</td>
<td>$170</td>
</tr>
<tr>
<td>Rest of North Island</td>
<td>$138</td>
<td>$121</td>
<td>$117</td>
</tr>
<tr>
<td>South Island</td>
<td>$324</td>
<td>$283</td>
<td>$274</td>
</tr>
<tr>
<td>National</td>
<td>-$140</td>
<td>-$129</td>
<td>-$124</td>
</tr>
</tbody>
</table>

Source: NZIER calculations

B.1.5 Cost of Imports

Because we are estimating that the economy is smaller, there will be a reduction in the quantity of goods imported into the economy. This effect is independent of the location of the Port and would be seen across all regions. The change in the cost of imports is presented in Table 14. In this table a positive value indicates an increase in the cost of imports.

Table 14 Changes in the cost of imports by region
Millions of dollars

<table>
<thead>
<tr>
<th>Region</th>
<th>PoT</th>
<th>Northport</th>
<th>Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northland</td>
<td>-$46</td>
<td>-$40</td>
<td>-$39</td>
</tr>
<tr>
<td>Auckland</td>
<td>$626</td>
<td>$549</td>
<td>$533</td>
</tr>
<tr>
<td>Waikato</td>
<td>-$47</td>
<td>-$40</td>
<td>-$39</td>
</tr>
<tr>
<td>Bay of Plenty</td>
<td>-$43</td>
<td>-$36</td>
<td>-$35</td>
</tr>
<tr>
<td>Wellington</td>
<td>-$112</td>
<td>-$97</td>
<td>-$93</td>
</tr>
<tr>
<td>Rest of North Island</td>
<td>-$80</td>
<td>-$67</td>
<td>-$66</td>
</tr>
<tr>
<td>South Island</td>
<td>-$185</td>
<td>-$159</td>
<td>-$153</td>
</tr>
<tr>
<td>National</td>
<td>$113</td>
<td>$110</td>
<td>$108</td>
</tr>
</tbody>
</table>

Source: NZIER calculations
B.1.6 Gross domestic product

As GDP is equal to consumption + investment + government spending + exports – imports (GDP = C+I+G+X-M), we can combine all the above figures into a single metric. We show both nominal and real figures.

Table 15 Changes in nominal GDP
Millions of dollars

<table>
<thead>
<tr>
<th></th>
<th>PoT</th>
<th>Northport</th>
<th>Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northland</td>
<td>-$66</td>
<td>-$50</td>
<td>-$47</td>
</tr>
<tr>
<td>Auckland</td>
<td>-$1,339</td>
<td>-$1,177</td>
<td>-$1,148</td>
</tr>
<tr>
<td>Waikato</td>
<td>-$79</td>
<td>-$68</td>
<td>-$65</td>
</tr>
<tr>
<td>Bay of Plenty</td>
<td>-$37</td>
<td>-$31</td>
<td>-$29</td>
</tr>
<tr>
<td>Wellington</td>
<td>-$19</td>
<td>-$16</td>
<td>-$15</td>
</tr>
<tr>
<td>Rest of North Island</td>
<td>-$37</td>
<td>-$28</td>
<td>-$28</td>
</tr>
<tr>
<td>South Island</td>
<td>$37</td>
<td>$34</td>
<td>$35</td>
</tr>
<tr>
<td>National</td>
<td>-$1,530</td>
<td>-$1,336</td>
<td>-$1,292</td>
</tr>
</tbody>
</table>

Source: NZIER calculations

Table 16 Changes in real GDP
Millions of dollars

<table>
<thead>
<tr>
<th></th>
<th>PoT</th>
<th>Northport</th>
<th>Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northland</td>
<td>-$51</td>
<td>-$45</td>
<td>-$43</td>
</tr>
<tr>
<td>Auckland</td>
<td>-$2,804</td>
<td>-$2,004</td>
<td>-$1,943</td>
</tr>
<tr>
<td>Waikato</td>
<td>-$57</td>
<td>-$48</td>
<td>-$47</td>
</tr>
<tr>
<td>Bay of Plenty</td>
<td>-$17</td>
<td>-$13</td>
<td>-$12</td>
</tr>
<tr>
<td>Wellington</td>
<td>$65</td>
<td>$58</td>
<td>$56</td>
</tr>
<tr>
<td>Rest of North Island</td>
<td>$21</td>
<td>$22</td>
<td>$22</td>
</tr>
<tr>
<td>South Island</td>
<td>$206</td>
<td>$183</td>
<td>$181</td>
</tr>
<tr>
<td>National</td>
<td>-$2,137</td>
<td>-$1,947</td>
<td>-$1,786</td>
</tr>
</tbody>
</table>

Source: NZIER calculations
NZIER Report: Location, Location, Location

The value of having a port in Auckland

Every few years Ports of Auckland commissions a study into the economic value of the port. This time the study was conducted NZIER, who considered what would happen if Ports of Auckland didn’t exist and freight for Auckland had to be routed via alternative ports. This then reveals the value that a port in Auckland adds to the city.

The full report has been provided for your information, but a summary of the impacts is shown below.
As would be expected given the higher cost of land transport compared to sea transport, increasing the distance freight is carried by land to Auckland has a significant economic and environmental impact.

**Carbon emissions increase**

Carbon emissions would increase significantly, up by at least 121,480 tonnes of CO₂ a year. It takes five times more carbon to move a container to Auckland via the Port of Tauranga than it does via Ports of Auckland. Importing via Northport uses seven times as much carbon.

**Imports would cost more**

All that extra land transport comes at a monetary as well as an environmental cost.

Currently, the additional cost of land transport for containers moved via Tauranga is absorbed by the supply chain. This is because Port of Tauranga must compete with Ports of Auckland. If Ports of Auckland was removed, there would be no competition and prices would increase to reflect the real cost of the longer supply chain.

Without a port in Auckland, Aucklanders will pay over half a billion dollars more for imports. This is just over $300 per Aucklander (adults and children) per year, forever. It is a permanent tax on Auckland. A family of four would pay over $1,200 extra a year, which is equivalent to a 37% increase in rates.

For comparison, the AA estimated that the Auckland Regional Fuel tax would cost about $143.75 a year, and it only falls on every Auckland motorist, not on every single Aucklander.

**Conclusion**

Having a port in Auckland benefits Auckland. The supply chain is shorter, leading to lower cost, lower emissions and faster time to market. If there was no port in Auckland, there would be an increase in costs and emissions as well as a reduction in overall economic activity.
PORTS OF AUCKLAND LIMITED

STATEMENT OF CORPORATE INTENT

For the period from 1 July 2019 to 30 June 2022
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STATEMENT OF CORPORATE INTENT
For the Period from 1 July 2019 to 30 June 2022

1. Introduction
This Statement of Corporate Intent (SCI) is for Ports of Auckland Limited and its subsidiaries (referred to singularly or collectively as “POAL” or “the Company”).
POAL is wholly owned by Auckland Council, referred to as “the Shareholder”.
This SCI covers the period from 1 July 2019 to 30 June 2022, and has been prepared in accordance with the terms under Section 9 of the Port Companies Act 1988.

2. Purpose
The purpose of this Statement of Corporate Intent (SCI) is to:

- State publicly the activities and intentions of POAL and the objectives to which those activities will contribute; and
- Provide a basis for the accountability of the Board of Directors of POAL to the Shareholder for the performance of the Company and its subsidiaries.

3. Nature and Scope of Activities
POAL provides the following services:

(a) container terminal handling services which includes receipt, delivery, transit storage and shipment of a wide range of import and export cargos;
(b) breakbulk and bulk cargo handling services;
(c) marine services which include pilotage, towage, hydrography and bunkering services – both directly and through its ownership of SeaFuels Ltd and Bunker Shipz Ltd and its half ownership of North Tugz Ltd;
(d) intermodal freight hubs in South Auckland, Waikato, Bay of Plenty and Manawatu – both directly and through its ownership of Waikato Freight Hub Ltd and its one third ownership of Longburn Intermodal Freight Hub Ltd;
(e) supply chain management services – both directly and through its ownership of Nexus Logistics Ltd and CONLINXX Ltd;
(f) other port-related activities required to manage and operate an efficient and competitive port – both directly and through its half ownership of PortConnect Ltd; and
(g) services and facilities to support the cruise ship industry.

4. Vision
Working for Auckland and serving New Zealand, today and tomorrow. Kaitiakitanga.
Ports of Auckland works hard to bring in goods a growing Auckland needs. We also serve New Zealand’s national freight needs by using our inland hubs to deliver imports and exports efficiently and sustainably.
We aspire to be a world-class port company known for our skilled people, innovation and sustainable practices. We are committed to working with the community in an open and transparent manner as we develop to meet Auckland and the country’s needs.

5. Objectives

5.1 Principal Objective

The principal objective of POAL is to operate as a successful business\(^1\); i.e. to be as profitable and efficient as comparable businesses that are privately owned, and sustainable over the long term.

5.2 Working for Auckland and serving New Zealand

POAL is a “Lifeline Utility” as defined under the Civil Defence Emergency Management Act 2002. Lifeline utilities are entities that provide essential infrastructure services to the community, such as water, wastewater, and transport. As such, we have a responsibility to ensure that our operations have the capability and resilience to meet Auckland’s maritime transport needs in the event of a civil defence emergency. We take this responsibility very seriously, particularly in the planning and maintenance of our infrastructure and equipment.

POAL recognises that how well we carry out our role in facilitating trade for the regions and nations exporters and importers and the cruise ship industry has a significant impact on the economic wellbeing of Auckland and New Zealand.

POAL recognises that its seaport’s location on the Waitematā harbour holds a special significance to the Auckland community. POAL is committed to ongoing engagement with Auckland Council and its related entities, our community, local iwi and other stakeholders with regard to its activities at the seaport.

POAL will maintain a stakeholder engagement plan and act as a good neighbour and as a good corporate citizen and will report progress against the plan to the Shareholder on a quarterly basis.

POAL will strive to achieve the targets it has set to improve profitability and provide a sustainable level of financial returns to the Shareholder.

POAL will act in an environmentally and socially responsible manner.

POAL will act as a good employer.

POAL will work co-operatively with Auckland Council and CCOs, including Auckland Transport and Panuku Development Auckland, to assist in the delivery of the Council’s strategic priorities. Where practicable POAL will align its strategic priorities with the Council’s strategic priorities; including those in the Auckland Plan 2050, The Waterfront Plan 2012, City Centre Masterplan 2012, Regional Land Transport Plan 2018-2028, the Central Wharves Strategy and the Low Carbon Strategic Action Plan. **POAL will contribute to the Council’s City Centre Masterplan refresh in 2020.**

POAL will contribute to Auckland Council’s targets for reducing greenhouse gas emissions through POAL’s Emissions Reduction Roadmap.

POAL will strengthen its relationships with Mana Whenua to enable it to contribute to Auckland Council’s targets of increasing Māori economic and social wellbeing.

POAL will ensure that the Shareholder is kept fully and promptly informed of any issues that may generate public and/or media interest or comment.

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\(^1\) Port Companies Act 1988, section 5
POAL will maintain a good relationship with central government, including contributing to its Upper North Island Supply Chain Strategy.

In order to operate a successful and sustainable business on its current site, POAL will continue to investigate new ways to handle freight which improve the efficiency of our operations, provide sufficient capacity for Auckland’s future growth and to reduce the negative impact port operations can have on the community and environment.

POAL supports regional and national growth by offering an efficient connection to overseas markets through our sea port and freight hub network. This network also helps balance our freight flows and reduces the unnecessary movement of empty containers. Our supply chain strategy has financial and environmental benefits for importers, exporters and our business.

5.3 Outcomes and Strategic Objectives

POAL will provide value to our stakeholders by serving Auckland and New Zealand’s freight needs in an efficient and sustainable way.

POAL developed a 30-year Master Plan that balances Auckland’s economic, social and environmental needs. The plan provides certainty about what we need to do to continue delivering for Aucklanders. It creates space for freight and gives Auckland the time it needs to make a sound decision on where, when and how to move the port. Auckland Council’s Planning Committee considered the plan and noted that it aligns with the council’s City Centre Master Plan, Waterfront Plan and Central Wharves Strategy, and is consistent with the recommendations of the Ports Future Study.

POAL will seek Auckland Council’s support when required in regard to POAL’s 30 year Master Plan developments and Auckland road and rail infrastructure changes required to support access to the Port.

POAL has 9 outcomes and related strategic objectives as follows:

Safe and empowered people

- Safety and wellbeing embedded into our culture
- Structures and systems for an engaged and well-skilled workforce
- Diversity and inclusion leveraged for competitive advantage

Innovation leader

- Foresight and innovation in our culture and operations

Delighted customers

- Productive and efficient operations
- Effective engagement with customers

Future-fit NZ port structure

- Strong relationships with aligned New Zealand ports
- Actively engage in port sector structure change with government and industry

Supportive community and iwi

- Constructive relationships with community and iwi
- Increased public engagement with open and transparent communications, as far as practical with respect to commercial objectives
Improved environment
- Protection of our natural environment
- Responsible use of natural resources
- Leader in Auckland’s transition to a low carbon economy

Volume growth through sustainable supply chain solutions
- Integrated supply chain network – hubs and transport with a focus on rail
- Gain high volume cargo owners with supply chain solutions
- Supply chain successfully contributes to volume growth

Keeping ahead of trade needs
- Step-change in container terminal capacity through straddle automation
- Step-change in car handling capability
- Appropriate capacity to meet growing volumes and larger ships
- Improved performance and productivity through innovation
- Work with supply chain partners to improve the efficiency of the Auckland supply chain

Commerially successful
- Sustainable shareholder returns
- Maintain sufficient financial capacity to respond to market change risks
- Rapidly adapt and respond to internal / external change and continue operations with limited impact
- New sustainable revenue streams through innovation and partnerships

6. Key Performance Targets

<table>
<thead>
<tr>
<th>Outcomes</th>
<th>Key Performance Measures</th>
<th>Targets</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>2020</td>
</tr>
<tr>
<td>Safe and empowered people</td>
<td>Number of lost time injuries</td>
<td></td>
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<tr>
<td>Achieve the target of becoming a zero harm workplace</td>
<td>Increase the number of women in our workforce from 20% to 30% by FY2022</td>
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<tr>
<td>Delighted customers</td>
<td>Crane rate (as measured by MOT)</td>
<td>35.75</td>
</tr>
<tr>
<td>Ship rate (as measured by MOT)</td>
<td>83</td>
<td>83</td>
</tr>
<tr>
<td>Container Terminal – Truck turnaround time</td>
<td>90% at &lt; 30 min</td>
<td>90% at &lt; 30 min</td>
</tr>
<tr>
<td>Container Terminal – Truck average turn time</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Customer Survey Score</td>
<td>At least 8/10</td>
<td>At least 8/10</td>
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</tbody>
</table>

Supportive community and iwi
- Hold quarterly community reference group meetings to provide a forum for community feedback and dialogue re POAL’s operations and development plans.
- Attend all relevant Auckland local Board meetings where invited and strengthen relationships with the Orakei, Waitakere and Devonport-Takapuna local boards.
- Strengthen relationships with mana whenua.
<table>
<thead>
<tr>
<th>Outcomes</th>
<th>Key Performance Measures</th>
<th>Targets</th>
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<tr>
<td></td>
<td></td>
<td>2020 2021 2022</td>
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<tr>
<td>Improved environment</td>
<td>Number of harbour spills caused by POAL</td>
<td>0 0 0</td>
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<tr>
<td></td>
<td>All public environmental complaints acknowledged within 24 hours</td>
<td></td>
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<tr>
<td></td>
<td>Target detailed response timeframe for complaints (where required):</td>
<td></td>
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<tr>
<td></td>
<td>90% within 7 working days and 100% within 10 working days</td>
<td></td>
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<tr>
<td></td>
<td>Percentage of land-side moves on rail</td>
<td>18% 20% 20%</td>
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<td></td>
<td>Work towards POAL’s long term environmental sustainability goals of being carbon neutral</td>
<td></td>
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<tr>
<td></td>
<td>by 2025; emission free by 2040 and zero waste to landfill by 2040</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Develop and verify our Science Based Targets in 2020</td>
<td></td>
</tr>
<tr>
<td>Keeping ahead of trade needs</td>
<td>Multi-cargo terminal: average car dwell times (days)</td>
<td>2.9 2.85 2.85</td>
</tr>
<tr>
<td>Commerciably successful</td>
<td>Increase in revenue</td>
<td>4.9% 18.7% 13.1%</td>
</tr>
<tr>
<td></td>
<td>Interest coverage ratio</td>
<td>2.7x 3.3x 4.6x</td>
</tr>
<tr>
<td></td>
<td>Net Profit after Tax (NPAT)</td>
<td>$40.1m $44.0m $77.3m</td>
</tr>
<tr>
<td></td>
<td>Dividend declared (includes group tax offset)</td>
<td>$8.7m $9.4m $64.3m</td>
</tr>
<tr>
<td></td>
<td>Return on Equity (NPAT / average Equity)</td>
<td>5.1% 5.3% 9.0%</td>
</tr>
<tr>
<td></td>
<td>Return on Equity (excluding asset revaluations)</td>
<td>7.1% 7.3% 12.0%</td>
</tr>
<tr>
<td></td>
<td>Ratio of consolidated shareholders’ funds to total assets</td>
<td>54.6% 55.3% 56.6%</td>
</tr>
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</table>

The near-term objectives and associated targets represent POAL’s concerted efforts to develop and implement its long-term strategy to improve the profitability and sustainability of its operations.

7. **Dividend Policy**

POAL has a target to pay out 80% of after-tax profits to the Shareholder (excluding the tax-adjusted effect of investment property revaluations, unrealised capital gains and losses, unrealised treasury gains and losses) providing this policy allows POAL to sustain an optimal capital structure. Each year the Board will review its ability to pay dividends at this level after giving consideration to: the ongoing needs of the business, the riskiness of the market environment, the requirements of the Companies Act and the statutory obligations imposed on Directors. Dividends will be paid in two instalments in February and August.

Due to the high level of capital investment required to meet Auckland’s growing freight needs, for the financial years ending 30 June 2020 and 2021 POAL anticipate paying a dividend of 20% of after-tax profits.

8. **Accounting Policies**

POAL has adopted accounting policies that are consistent with the New Zealand International Financial Reporting Standards (NZ IFRS) and other standards issued in accordance with the Companies Act 1993 and the Financial Reporting Act 1983 and any amendments thereto.

A full statement of the Company’s accounting policies is set out in the audited annual Financial Statements.
A register of accounting policies will be provided to the Shareholder’s Financial Planning Team in accordance with the Shareholder’s timetable.

9. Information to be provided to the Shareholder

Statutory Information Requirements

Annual Statement of Corporate Intent (SCI)

POAL will provide the Shareholder with a draft SCI for discussion and a final SCI as required by the Port Companies Act, working with the shareholder to meet its timetable.

Half Yearly Report

Within seven weeks after the end of the first half of each financial year, the Company will deliver to the Shareholder and the Minister of Transport its Half Yearly Report prepared in accordance with the NZ IFRS and the Financial Reporting Act 1993, including the unaudited group consolidated financial statements and performance commentary, together with such other information as the Board consider appropriate.

The report will include:

- Performance Commentary,
- Income Statement,
- Balance Sheet,
- Cash Flow Statement,
- Statement of Changes in Equity,
- Notes to the Financial Statements,
- Performance against the SCI Key Performance Targets and other measures.

Annual Report

Within three months after the end of each financial year POAL will deliver to the Shareholder and the Minister of Transport its Annual Report prepared in accordance with the reporting requirements of the NZ IFRS and the Financial Reporting Act 1993 and will include the audited annual group consolidated financial statements and performance commentary, together with such other information as the Board consider appropriate.

The report will include:

- Performance Commentary,
- Income Statement,
- Balance Sheet,
- Cash Flow Statement,
- Statement of Changes in Equity,
- Notes to the Financial Statements,
- Performance against the SCI Key Performance Targets and other measures, and
- Auditor’s Report.

Other Information Requirements

Quarterly Reports
Within five weeks after the end of each quarter, the Company will deliver to the Shareholder a report on the preceding quarter, consisting of the following:

- Financial update as at the end of the quarter showing progress against budget, including the return on equity (ROE);
- Progress against the SCI Key Performance Targets;
- Commentary on progress on key issues affecting or likely to affect the business; and
- Any significant events that have arisen in the quarter.

**Annual Shareholder Meeting**

At a time to be agreed with the Shareholder, POAL officers will present to the Shareholder on the performance of the Company as well as progress on key issues affecting or likely to affect the business, and any significant events that have arisen.

**One-off public and ‘no surprises’ issues, including media releases**

The Company will endeavour to:

- inform the Shareholder prior to any significant decisions being made public or the occurrence of any event that could reasonably be anticipated to have a high level of public interest
- provide the Shareholder with copy of any media releases prior to publication.

The information is to be provided to the Mayoral Office and Shareholder’s Communications Team.

**Material financial changes**

The Company will confer with the Shareholder on any material acquisitions, disposals or other changes which affect the Shareholder’s accounting or financial reporting treatment or obligations before contractual commitments are entered into. The information is to be provided to the Shareholder’s Financial Planning Team.

**Primary line of communication**

The Company’s primary line of communication, for all formal reports and ad hoc business matters, is direct to the CCO Governance team of the Shareholder. The Company will also have a direct line of communication to the Mayor of Auckland.

**Financial reporting requirements**

POAL will provide all public benefit entity reporting requirements to the Shareholder as required by the Shareholder’s timetable. The information will be provided to the Shareholder’s Financial Planning Team.

10. **Investments**

The Company’s ability to subscribe for, purchase or otherwise acquire shares in any company or other organisation is governed by the provisions in the POAL Constitution and the Companies Act 1993.

11. **Capital Expenditure**

The Company will confer with the Shareholder in respect of any significant proposed capital expenditure which is not included within, or is inconsistent with, the 5 year strategic plan, or which impacts the Port’s footprint and its connection to Auckland before contractual commitments are entered into.
12. Asset or Investment disposals
The company will confer with the Shareholder in respect of any significant asset or investment disposal before contractual commitments are entered into.

13. Compensatory Activities
The Company will seek compensation for all non-commercial activities performed by it on behalf of local authorities.

14. Value of Shareholder’s Investment
The assessed market equity value of Ports of Auckland Limited based on an external review undertaken at 31 December 2013 was $1.1b.
28 September 2019

Mayor of Auckland

Phil.Goff@aucklancouncil.govt.nz

Dear Mr Goff

Thank you for your letter dated 22 August with Auckland Council Finance and Performance Committee’s comments on Ports of Auckland’s draft Statement of Corporate Intent for 2019-2022.

For ease of reading I have copied the Committee’s comments in blue italics and recorded our responses as follows:

1. The SCI should include a commitment to look at new solutions for handling car imports to remove vehicles from Captain Cook and Bledisloe wharves. The council’s objectives are:
   • To allow for more efficient use of the wharves, including freeing up berth space on the western side of Bledisloe Wharf and Captain Cook Wharf for possible use by cruise ships; and
   • To reduce the impacts of transporting vehicles on the downtown area and the motorway network.

2. POAL has a statutory obligation to operate as a successful port company, and the Council believes an investigation of the proposal to barge cars to Highbrook is consistent with this imperative given the commercial opportunities it may create.

The Council objectives above are aligned with POAL’s strategy. In order to operate as a successful business, POAL needs to maintain its ‘social licence’. To do this, POAL must take account of community and environmental imperatives, which in turn are reflected in our 30-year master plan. The master plan projects facilitate faster throughput, greater intensity of land use and a reduction or mitigation of our negative impacts on the community and the environment.

We have added to the final SCI under section 5.2 “In order to operate a successful and sustainable business on its current site, POAL will continue to investigate new ways to handle freight which improve the efficiency of our operations, provide sufficient capacity for Auckland’s future growth and to reduce the negative impact port operations can have on the community and environment.”

With regard to this specific initiative, POAL are reviewing the barge option with PTS Group and if feasible will support PTS in its implementation.
3. I appreciate that the company is in a capacity building phase. However, as you noted in your letter to me, the automation project includes a number of world firsts. Therefore, it is challenging work and is not without risk. This project is critical to POAL’s future performance which, in turn, impacts on the council. I expect that you will keep the council closely informed of the ongoing progress, including the risk mitigations you are putting in place.

POAL’s Executive and Board are well aware that the automation project is both critical to our future and challenging. Therefore our entire management team is focused on ensuring it is delivered successfully and it is on the agenda at every board meeting. POAL have engaged IT consultants VOCO and our internal auditors KPMG to independently review the project and provide advice and assurance. The project is well into the testing phase and we won’t be going live until all tests are completed successfully and KPMG have provided assurance on that. The project go-live plan is for the new Fergusson North berth to commence automation first so that the automated straddles and systems can be fully reviewed and optimised in a production state, while we continue to operate the western Fergusson container berths using current straddles and systems.

4. I appreciate that POAL has nearly completed the development of its Māori responsiveness plan, and therefore has removed the associated key performance indicator (KPI). However, I expect to see the commitments in the Māori responsiveness plan drop down into the SCI.

POAL will complete our Māori Responsiveness Plan with input from the Mana Whenua Kaitiaki Forum. We expect to see commitments from the plan drop into next year’s SCI.

5. I commend POAL’s long-term goals for reducing its carbon emissions and the initiatives it has taken to achieve this, including the introduction of an electric tug. The SCI needs to include a staged target for POAL’s progress towards achieving its goal of being carbon neutral by 2025.

POAL is taking a measured and rigorous approach developing its emissions reduction roadmap to ensure it is robust and can be delivered. We do not want to over promise and under deliver.

POAL are currently developing a dynamic model for emissions which will be used to confirm the preferred emission reduction projects to be implemented in the next 15 years. This work is part of our development of Science Based Targets and we will submit our proposed emission reduction roadmap to the Science Based Targets Initiative for verification this financial year. We have therefore included in our Final SCI a target to develop and verify our Science Based Targets in FY2020.

After verification POAL will be able to publicly state our staged emission reduction targets which will be included in next year’s SCI. The baseline emissions work completed to date and the thorough analysis of the costs and efficacy of reduction project options is essential to develop a strong and achievable foundation for reducing our emissions. Generally speaking, the Science Based Targets will require an average emissions reduction of approximately 2.5% per year (but can be aggregated across 15 years) for a scenario that achieves POAL’s contribution to keep global temperature increase well below 2 degrees Celsius compared to pre-industrial temperatures.

6. The SCI contains three objectives related to the outcome of ‘safe and empowered people’. The council supports these objectives, however two of these (the objectives relating to diversity and inclusion and an engaged and well-skilled workforce) have no associated KPIs. The SCI should have KPIs and further discussion of what POAL is doing to achieve these objectives. An area of

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particular interest to council is the workforce impacts of the automation project, and the retraining and other transitional assistance the company will be putting in place for those who may be displaced.

POAL has a target to increase the number of women in our workforce from 20% to 30% by FY2022 and has added this into the final SCI. Our 2019 Annual report has a section on diversity and inclusion covering targets, outcomes and what action POAL is taking to improve outcomes.

We believe we have a social responsibility to help our people navigate the job changes resulting from automation. We have introduced a Future of Work programme which includes the Future of Work Experience so staff can understand why POAL is changing, providing specific skills training for staff whose roles will evolve following automation, career transitioning support for people who may need to consider their transferrable skills they have to move to other organisations and support for creating a CV. POAL have also introduced an on-line learning platform so staff can upskill in new areas at their own pace; introduced weekly counselling sessions provided by EAP for staff unsettled by change; organised an extensive communications programme which includes briefing sessions, videos and pamphlets, so that staff are kept abreast of all automation activities; and provided multiple options for staff to submit questions and are publicly displaying these together with our responses.

7. POAL needs to maintain a close working relationship with other members of the council group, principally the council, Auckland Transport and Panuku Development Auckland, on both a strategic and operational basis. The SCI includes commentary to that effect, but it is important that all members of the council group model these behaviours. For example, the City Centre Masterplan will be refreshed over the coming year and it will be important that POAL plays a role in this.

POAL have added to the final SCI under section 5.2 “POAL will contribute to the Council’s City Centre Masterplan refresh in 2020.”

8. The SCI should include a more detailed description of the Port’s role in the upper North Island, and the benefits it provides outside of those that accrue to Auckland and to the council as its shareholder.

POAL have added to the final SCI under section 5.2 “POAL supports regional and national growth by offering an efficient connection to overseas markets through our sea port and freight hub network. This network also helps balance our freight flows and reduces the unnecessary movement of empty containers. Our supply chain strategy has financial and environmental benefits for importers, exporters and our business.”

POAL have commissioned a study by NZIER to look at the value a port in Auckland provides to Auckland and New Zealand. The report is expected to be finalised toward the end of the year, and information from this report could be added to next year’s SCI.

9. The Memorandum of Understanding provides that POAL should provide periodically, and at least annually, a briefing to the Governing Body. As the last briefing was held early in 2019, the next briefing should be held soon after the new council is sworn in. Moreover, given the value of these events I consider that they should be held twice annually. We also request that under the “primary line of communication” section of the SCI you add the Mayor of Auckland to reflect the channels of communication at the governance level. This is within the terms of the MOU.

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POAL appreciate the opportunity to present to the Governing Body and support twice annual briefings. We will also provide opportunities for Councillors to visit the port, meet with us and directly see the changes that are in progress. POAL have added to the final SCI under section 9 “The Company will also have a direct line of communication to the Mayor of Auckland”.

Please let me know if you have any further questions.

Kind regards

\[Signature\]

Liz Coutts
Chair
Board of Directors
Tira Kāwana / Governing Body
Workshop: Remuneration and Expenses

NOTES

Minutes of a workshop of the Governing Body held in Meeting Room 1, Level 26, 135 Albert Street, Auckland on Wednesday, 13 November 2019 at 1.06pm.

PRESENT
Hon Phil Goff, CNZM, JP
Deputy Mayor Bill Cashmore
Cr Josephine Bartley From 1.23pm, Item 4
Cr Linda Cooper, JP
Cr Angela Dalton
Cr Chris Darby
Cr Alf Filipaina From 1.15pm, Item 4
Cr Richard Hills
Cr Daniel Newman, JP
Cr Desley Simpson, JP
Cr Wayne Walker From 1.11pm, Item 4
Cr Paul Young From 1.18pm, Item 4

APOLOGIES
Cr Cathy Casey
Cr Fa’anana Efeso Collins
Cr Pippa Coom
Cr C Fletcher
Cr Tracy Mulholland
Cr Greg Sayers
Cr Sharon Stewart
Cr John Watson

Note: No decisions or resolutions may be made by a Workshop or Working Party, unless the Governing Body or Committee resolution establishing the working party, specifically instructs such action.
**Purpose:**
The purpose of the meeting is to:

1) consider proposed elected member remuneration options. Final decision will be taken to GB on 12 November.

2) clarify childcare allowance. Post-workshop, the proposal is for circulation with local boards and then for final approval of the Governing Body.

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| 2    | **Declarations of Interest** |
|      | Members were reminded of the need to declare any conflict that may arise between their role as a member and any private or other external interest they might have. |

| 4    | **Expenses Policy for the 2019-2022 term** |
|      | Attachment: Draft Expenses Policy |

Staff addressed the item and highlighted the following:

- There was a new Section four which included use of the Employee Assistance Programme (EAP) and the council’s wellbeing portal
- The approval process for travel by the Mayor and Deputy Mayor would now be approved by the independent chairperson of the Audit and Risk Committee
- Childcare allowance

*Cr W Walker entered the meeting at 1.11pm.*
*Cr A Filipaina entered the meeting at 1.15pm.*

Members asked questions of the staff.

*Cr P Young entered the meeting at 1.16pm.*
*Cr J Bartley entered the meeting at 1.29pm.*
*Cr W Walker left the meeting at 1.32pm.*
3 Remuneration for the 2019-2022 term
Attachment:  Local Government members (2019/20) Determination 2019
Attachment:  Auckland Council Governing Body Determination

_Cr W Walker returned to the meeting at 1.37pm._

Staff gave the background on the item, highlighting the following:

- The Regulatory Committee was defined as a committee of the whole
- The CCO Oversight Committee was not defined as a committee of the whole

The workshop closed at 2.00pm.