

## Mayoral Proposal for the Annual Budget 2020/2021

December 2019

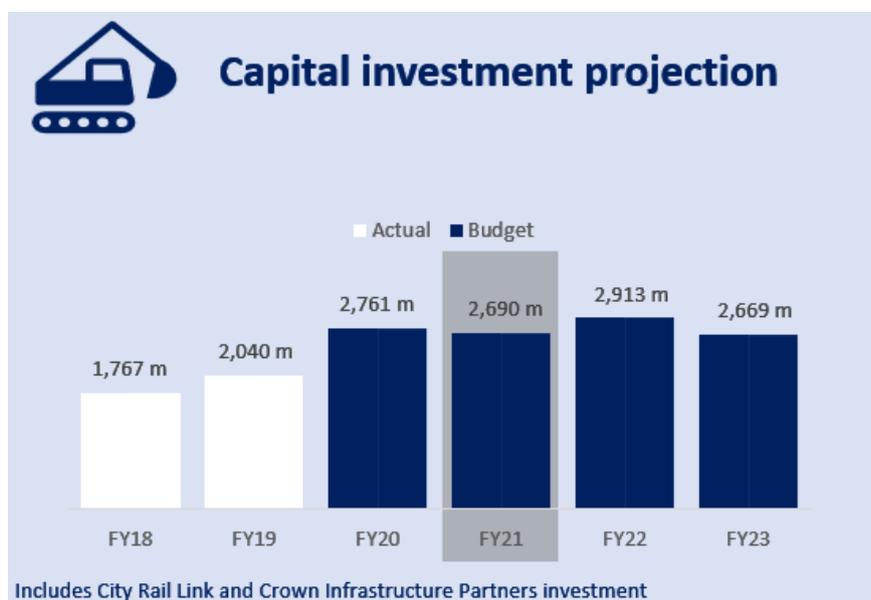
### Overview

1. Auckland Council group is making steady and strong progress in investing in the community, the environment and the infrastructure of our rapidly growing region, on the foundation we laid in the 10-year Budget 2018-2028. Over the last year, the council delivered the largest ever annual capital programme of \$2 billion, consented more than 14,000 new residential dwellings and achieved over 100 million trips on public transport. The council also achieved \$24 million in savings and kept the rates increase low.
2. 2020/2021 is the third year of the 10-year Budget. It is the year when Auckland will host major events, including the 36th America's Cup (AC36), Te Matatini and APEC, which will proudly showcase our city, including our unique Māori culture and identity, and bring significant economic benefits. While the one-off capital programmes relating to AC36 taper off, we will continue to invest in transport and housing infrastructure, improve water quality and protect the natural environment.
3. Prior budget decisions, in particular City Rail Link (CRL) but also AC36 infrastructure and Eden Park, have significantly reduced our funding capacity over the next four years. We must maintain discipline and financial prudence in this budget in order to serve Aucklanders within the committed average general rate increase and to keep within the internal ceiling for the debt to revenue ratio. We need to maximise value for money for Aucklanders in the services we provide and the investments we make.
4. At the same time, it is important that the council continues to promote positive changes to build Auckland's future. We are striving to be a world-class city and to enable lower income Aucklanders to meet their needs and fully participate in society.
5. The council also needs to act urgently on the challenge of greenhouse gas emissions and climate change. Meeting the reductions needed in greenhouse gas emissions requires changes to the way the council operates as an organisation and wider changes in the way the city and country operates. We need to improve awareness, understanding and buy-in of the public and every sector across Auckland. The climate emergency cannot be solved by Auckland Council alone. It requires the collective effort of everyone and every organisation in our society. While we make a start in this budget, substantive decision-making in the council's actions on climate change will be part of the 10-year Budget 2021-2031.
6. Last but not least, we need to meet growing demand on public transport (PT) services and network infrastructure. Offering choices in transport modes, in particular convenient and reliable public transport, is necessary both to reduce traffic congestion and reduce greenhouse gas emissions.
7. Summary of the Annual Budget 2020/2021:
  - a \$2.7 billion investment in capital assets and operating expenditure of \$4.4 billion
  - 3.5 per cent increase in average general rates and the Uniform Annual General Charge
  - continuation of reduction in the business differential
  - no changes to Regional Fuel Tax, Water Quality Targeted Rate, Natural Environment Targeted Rate, Accommodation Provider Targeted Rate (judicial review outcome pending)

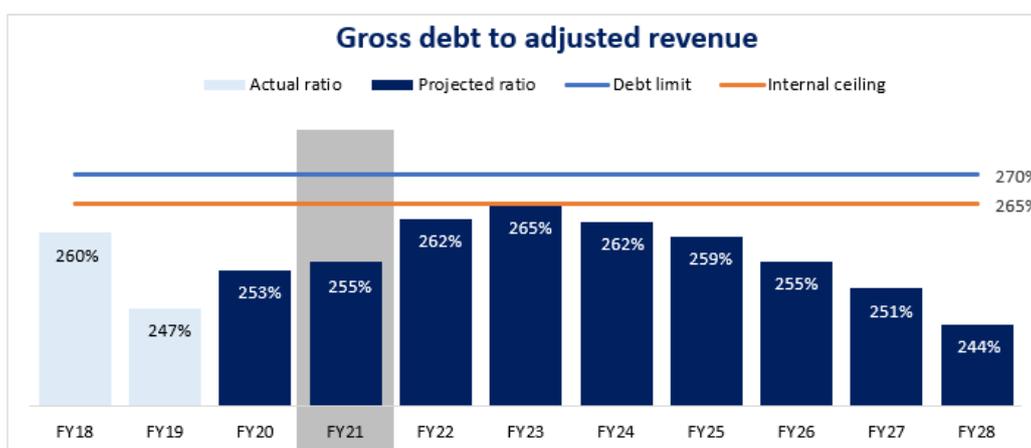
- cumulative annual savings of \$63 million by 2020/2021, including at least \$16 million in 2020/2021, \$24 million saved in 2018/2019 and \$23 million budgeted saving in 2019/2020
- progressively extending the living wage to contracted cleaners over the next three years with expenditure of up to \$1.3 million in 2020/2021
- continued support in the council's coordination and facilitation role in tackling homelessness in Auckland at \$500,000 per annum for the next three years
- initial response to increased urgency of climate action ahead of the next 10-year Budget, including:
  - up to \$6.3 million for decarbonising the council's fleet over the next five years funded from existing budget
  - \$9 million for phasing out gas boilers in council aquatic centres over the next five years, with \$1.5 million in 2020/2021
  - these two measures will reduce the council's emissions by nearly 20 per cent
  - \$2.7 million for planting an additional half a million trees over the next three years, totalling a million and a half trees this term
  - \$900,000 for foundation work for climate change interventions.
- \$4.13 million per annum to increase the subsidy for child fares across public transport services (excluding exempt ferry services).

## Our financial context

8. The starting point of the Annual Budget 2020/2021 is the third year of the 10-year Budget, adjusted by decisions made since the adoption of the 10-year Budget (including Annual Budget 2019/2020). Capital investment is projected to be \$2.7 billion, including our investment in CRL. Net direct operating expenditure is budgeted at \$695 million, which excludes depreciation, interest costs, vested assets, rates revenue and accounting adjustments.



9. Revenue comes from an annual general rate increase of an average 3.5 per cent, existing targeted rates, fees and charges, grants and government subsidies, development contributions, proceeds from the sale of surplus assets, and \$0.8 billion of additional borrowing.
10. The additional one per cent average general rate increase next year is needed to invest in new and improved infrastructure for a rapidly growing city, including depreciation and the cost of maintaining a growing infrastructure asset base. Our physical asset base is growing significantly, due to both our own capital programmes and assets vested from developments (e.g. roads, pipes, reserves). We are also moving towards fully funding depreciation over the 10-year Budget by 2025. This means we need additional revenue to invest in and maintain the integrity of our growing physical asset base for future generations.



11. Borrowing will be kept at sustainable levels. Operating and investing with an internal debt to revenue ratio limit of 265 per cent allows us to manage our debt prudently and maintain our

strong credit rating. The projected debt to revenue ratio is 255 per cent for 2020/2021, increasing to 262 per cent in 2021/2022 and peaking at 265 per cent in 2022/2023 before trending down thereafter.

12. The funding capacity for further new or accelerated investment is limited. The council cannot commit to further projects unless there are identified sources of funding for them. Any substantial new investment or acceleration would require additional revenue or reprioritisation between projects and/or across years.
13. In a constrained funding environment, we need to ensure value for money for Aucklanders in the services we provide and in the investments we make. Last term, the Value for Money Review Programme realised a benefit of \$270 million in capital and operating savings across the group over 10 years. The Value for Money Committee's work programme will continue to pursue efficiency and benefit opportunity of \$500 million over 10 years and prove to ratepayers that the council is working as efficiently as possible.

## **Community**

### Living wage

14. To be the inclusive city we aspire to, we must look after our lower paid workers. We are proud that over the last term of council those employed directly by the council and substantive Council-controlled Organisations (CCOs) now have a living wage to help them properly support their families.
15. However, others who are employed by the council's suppliers but effectively work for the council, also deserve a wage they can live on. As a starting point, we will lift the incomes of those who work through the night cleaning our offices, libraries, community centres, streets and public transport buildings and fleet. I propose progressively extending the living wage to cleaners contracted to the council and substantive CCOs over the next three years. A decent society ensures that those who do an honest week's work are paid sufficiently to meet the cost of providing shelter, food and support for their children and families.
16. The implementation will involve reviewing existing contracts and negotiating renewal or variations. The new/revised contracts would require suppliers to progressively lift the wage for cleaners, who routinely work on council sites, to a living wage in the next three years. The estimated cost for 2020/2021 is up to \$1.3 million. When fully implemented, the annual cost is estimated to be up to \$3.9 million by year three, subject to negotiations. It is estimated that between 400 and 500 people will benefit. The cost will be funded from savings.
17. I also propose the council compile a record of other workers who, while employed by council suppliers, effectively work for the council and substantive CCOs. That information will enable us to determine how and when we can extend the living wage further.

### Homelessness

18. Like other Aucklanders, I want to see the blight of homelessness removed from our streets. No one should have to sleep rough, in vehicles or emergency accommodation because no alternatives are open to them. Auckland needs to look after our most vulnerable.
19. In partnership with the government and non-government organisations, the council contributed to reducing the number of people sleeping on the city's streets over the last term. We set aside \$0.5 million per annum in the last three years primarily for supporting Housing First Auckland and outreach initiatives in west, south and central Auckland. Housing First has been doing exceptional work and placed over a thousand previously homeless people into permanent accommodation in the past two and a half years.

20. In addition, the council provided \$2 million from the Auckland City Centre Targeted Rate for the refurbishment of the James Liston Hostel in Freemans Bay, which re-opened in June this year. It has a 52-bed capacity for emergency housing and will provide warm secure rooms, two meals a day, laundry services, and access to social services, and drug and alcohol counselling. In August, \$600,000 over two years starting 2019/2020 was endorsed by the Auckland City Centre Advisory Board to support the assertive outreach service from Auckland City Mission and Lifewise. Furthermore, a contribution of \$5 million was agreed in the current annual budget for the HomeGround project of Auckland City Mission. The development will help provide 80 secure and affordable housing units and social services facilities to further tackle chronic homelessness in Auckland, and the underlying causes of people being homeless. HomeGround is scheduled to be completed in 2020.
21. I propose that Auckland Council continue its support of \$0.5 million per annum for the next three years to help coordinate and facilitate ending homelessness in Auckland. The intention will be to transition this support into ongoing business as usual activity through the next 10-year Budget process. Our goal in working with Housing First and other partners is to develop new initiatives to:
- identify every rough sleeper individually (by name list) and the factors contributing to their homelessness, and put in place a plan tailored to their needs and finding them a home
  - work with the government to set numerical targets for getting rough sleepers off the streets and into homes
  - work with the government to prevent people from becoming homeless early, including mechanisms to ensure people released from hospitals, mental health facilities and prisons are not put out into the community with nowhere to live.
22. This funding will also enable the council to support outreach services across the region and target youth, Māori and Pasifika homelessness. This will support early intervention and prevention initiatives aimed at young people, improving practice and services for rainbow youth, supporting Kaupapa Māori initiatives and increased services by Māori-led organisations.

### **Parks and sport**

23. The 10-year Budget established the \$120 million Sport and Recreation Facilities Investment Fund, which will continue to bring improvements to Auckland's sporting facilities. The fund will be \$7 million next year and increase to over \$13 million in the following financial year. It allows clubs to maintain, develop and expand their facilities, helping more people enjoy the health and wellbeing benefits that sport brings.
24. We continue to achieve more with less through new partnership arrangements that provide for the community. A key example is the proposed co-investment into Western Springs College alongside the Ministry of Education. This joined-up approach enables the council to provide an increased number of new, high quality indoor facilities to meet provision levels for use by the community during peak sport-times.
25. Over the 2020/2021 year, we will invest a further \$50 million into land for new parks and open spaces, providing more options for Aucklanders to enjoy the outdoors. This is complemented by the continued expansion and development of Auckland Paths, facilitating active recreation and transport (walking and cycling options), and local connectivity to parks, recreational facilities and amenities.
26. We will continue to develop and support our communities with new facilities and provisions. In the south, the development of a multi-purpose facility and park at Ngāti Ōtara Park will enhance

facilities that are much needed. In the north, progress continues on the sustainable sports park at Scott Point, with physical works anticipated to commence in late 2020.

### **Māori outcomes**

27. We continue to prioritise the delivery of improved outcomes for Māori across the council.
28. Te Kete Rukuruku, a mana whenua directed programme, collects and shares the narratives unique to ngā iwi o Tamaki Makaurau, with more than 3,900 parks and recreation spaces involved to date.
29. Through The Southern Initiative, our social procurement initiative He Waka Eke Noa supports Māori businesses to be ready, and to connect with large private contractors. The programme supports buyers to deliver high impact procurement opportunities for diverse suppliers, and advocates strongly for supplier diversity to grow the pool of buyers.
30. With a growing focus on 2021 events, a specialist programme will outline how to best leverage Māori outcomes opportunities across the 2021 events programme (including AC36, Tāmaki Herenga Waka festival, Te Matatini and APEC). In a collaborative approach involving Auckland Tourism, Events and Economic Development (ATEED), America's Cup Event Limited, Ngāti Whātua Ōrākei, Te Matatini Society, Tāmaki Makaurau Senior Kapa Haka Society, Panuku Development Auckland (Panuku), Auckland Transport (AT), Regional Facilities Auckland (RFA) and other key council groups, we will ensure that Māori outcomes are a key part of planning and subsequent delivery of these events.

### **Environment**

#### Natural environment

31. In 2020/2021, we will invest around \$38 million to help protect our natural environment and tackle the pests, weeds and diseases that threaten our native species. We will upgrade over 40 kilometres of tracks and install more than 55 hygiene stations to manage the risk of kauri dieback. We will partner with mana whenua and work alongside community groups, schools, businesses and philanthropic entities to deliver Pest Free Auckland outcomes, including a number of large scale ecological corridor projects, such as the North West Wildlink.

#### Water

32. We will next year invest around \$40 million to continue improving the quality of Auckland's beaches and streams. Watercare is also investing \$125 million to improve our provision of safe, clean drinking water and \$411 million to improve the provision of safe, reliable, and resilient wastewater services to Aucklanders. For example, in the 2020/21 financial year, work will continue to the Central Interceptor, which is the flagship project of the \$1.85 billion Capital Western Isthmus Water Quality Improvement Programme. Two major projects will commence in the coming year to separate stormwater from wastewater in St Mary's Bay and Herne Bay, and divert stormwater flows away from St Mary's Bay and Masefield Beach. By the time these projects are complete, St Mary's Bay will be suitable for contact recreation at least 95 per cent of the time. These programmes will help substantially reduce wastewater overflows into the Waitematā Harbour and allow us to do in 10 year what would have taken 30 years – 20 years ahead of schedule.
33. The Ōkahu Bay targeted separation is scheduled for completion in December 2020. It will separate wastewater and stormwater pipes for 171 properties in Ōkahu Bay and construct 4.5 kilometres of new stormwater network to reduce wastewater overflows into the bay and enable future growth. In the city centre, the Daldy Street and Freemans Bay water quality projects will significantly reduce overflows into the Wynyard Basin, and move any remaining overflows into a

more dispersive environment, improving the water quality in the basin and the nearby Safeswim site. Watercare is investing \$376 million into Hunua 4, a 31 Km watermain, which will increase the capacity of the water network across Auckland. The project is due to be completed in 2020 and helps build resilience into the water supply network and provide for a growing Auckland.

### Waste

34. In February 2018, I allocated an additional \$200,000 to address illegal dumping of rubbish. The increased resource was spent on setting up the 0800 No Dump hotline, to install cameras at hotspot areas and hire additional staff. Since the increase in funding, the council has received more reports of illegally dumped rubbish, has attended more callouts and volumes of dumped rubbish have decreased. The initiative has dramatically increased the number of fines and prosecutions, with more than 545 infringement notices issued, as well as six prosecutions since the crackdown began. Given the successful outcomes this funding has enabled, it will continue in the 2020/2021 financial year.
35. The council supports the government's proposal to increase the waste levy to incentivise recycling and reuse, rather than burial of waste in landfills. The council further supports the use of waste levy revenue devolved to council to reverse the 30 per cent increase in waste in the last decade, and invest in facilities to improve onshore recycling.

### Early initiatives to act on climate emergency

36. In last year's 10-year Budget, the council established a \$40 million Climate Change Response Fund and invested an additional \$90 million in coastal asset management. With the urgency of making greater efforts now recognised, we are planning for substantive initiatives in the next 10-year Budget in 2021. In this annual budget, I am proposing urgent initiatives especially to demonstrate the council's leadership in taking measures to cut its own emissions.
37. Auckland Council acknowledges the importance of and urgent need to address climate change for the benefit of current and future generations. In 2020/2021 we will continue to invest almost \$2 million into sustainable education programmes that reach 75 per cent of all Auckland schools. These programmes are crucial to empowering our children to care for our natural environment, and actively contribute to a low carbon future. Furthermore, we aim to support Aucklanders through the work of community organisations to reduce their consumption emissions, lower their carbon footprint and increase demand for low-carbon products and services.
38. We recognise climate change is already impacting ecosystems and communities in New Zealand and around the world. Rapid and far-reaching changes in energy, land, urban infrastructure and industrial systems are required to reduce greenhouse gas emissions and limit global warming to the Paris Agreement aim of 1.5°C or face an uncertain future. This aim will require major changes and everyone has a role to play in reducing our greenhouse gas emissions.
39. In June, the council declared a climate emergency and committed to increasing our climate change work and leading by example in monitoring and reducing council's greenhouse gas emissions. The council also approved the draft Te Tāruke-ā-Tāwhiri: Auckland's Climate Action Framework (ACAF) for public consultation. Elected members will formally receive the consultation feedback and finalise ACAF next year.
40. In the meantime, work is underway in a coordinated manner across the group to identify the pathway and actions under the draft framework to achieve the 1.5°C target and become more resilient to climate change. This substantive programme of work will inform critical decision-

making on tackling climate change in the next 10-year budget. The development of approaches and projects for climate change will be informed by Māori cultural values and practices and the opportunities that these will provide to Māori and all Aucklanders. Both new climate change policies and projects will also endeavour to address their cultural, economic and equity impacts.

41. In the Annual Budget 2020/2021, I propose a package of initiatives aimed at taking early actions now to demonstrate council leadership and establish a strong foundation for the 10-year budget deliberation. It includes:
  - Decarbonising council fleet
42. Transport emissions account for 44 per cent of Auckland's total emissions, 90 per cent of which relates to travel by road. The council needs to lead by example and reduce its fleet emissions.
43. This initiative, led by Corporate Property and Services, will target 1,100 vehicles in the fleet of council parent, AT, Panuku and RFA. The fleet is underutilised and carbon heavy. Fleet emissions comprise 14 per cent of the council's overall emissions. Decarbonising the council fleet is a cost-effective way to show council leadership in climate action in an area where the council has direct control.
44. Starting in 2020, decarbonisation will be achieved through a reduction of 230 combustion-engine vehicles in the fleet, replacing further 358 combustion-engine vehicles with fully electric ones and implementing travel demand management tools. The pace of the initiative will allow for a technology review in 2022 to consider changes in battery technology, charging infrastructure, hydrogen fuel cells and availability of fully electric utes and 4WDs. The review will inform how we can replace the remaining combustion engine vehicles as quickly as possible.
45. It is estimated that in five years, this initiative would save 1,966 tonnes of carbon, reduce the council fleet transport emissions by 50 per cent, and reduce total council emissions by 7 per cent. The total cost of the investment is estimated to be up to \$6.3 million. This can be accommodated from the existing budget. The savings in future running costs for a reduced and more electrified fleet will pay back the investment within five years. The operating expenditure saving would increase to \$1.2 million per annum from 2025 onwards.
  - Phasing out boilers
46. Natural gas accounts for 23 per cent of Auckland Council's greenhouse gas emissions. 85 per cent of the council's natural gas use is in aquatic centres. Pool heating is a major target for emissions reduction.
47. Gas boilers are cheaper to install than electric heat pumps. However, heat pumps cost less to run in the long term and reduce emissions by 81 per cent compared to gas boilers. The council generally switch from boilers to heat pumps when boilers reach the end of their useful life or in a new facility. However, the emission reduction benefit and ongoing savings in energy and maintenance costs justify us acting now to replace gas boilers with heat pumps.
48. I propose that we accelerate and phase out gas boilers in the next five years. This project will be led by Community Facilities and will target boilers across 20 swimming pools. Heat pumps will be installed to heat the pools (i.e. most of the heat load) and existing boilers will be retained, where they are still in good condition, to provide air heating and for heating when refilling pools until the end of their useful life. Two heat pump pilot projects will be completed with the council's Sustainability Fund (\$1 million per annum) in the current year. It is estimated that the

substantive phase-out would save 4,040 tonnes of carbon per annum and reduce the council's emission by 12 per cent.

49. The total capital expenditure is estimated to be \$9 million over five years, with \$1.5 million in 2020/2021. There will be capital cost savings in avoided boiler cost as well as ongoing operational cost savings in energy use and maintenance. The operational savings are projected to grow to \$1.2 million per annum as the project progresses. The investment will be paid back in five years from completion.

- Planting one and a half million trees

50. With the hard work of council staff, community groups, mana whenua, government ministries and all the volunteers, as promised in the 2016 mayoral campaign, we planted over one million trees in the last council term. We need more trees to green the city, help prevent erosion and siltation, absorb carbon emissions and to create habitats for native birds. I propose planting additional 500,000 trees over next three years, taking the total number of planned tree plantings in this term up from one million to over one million and a half. The additional trees and maintenance would cost approximately \$2.675 million over three years.

- Foundation work for climate change intervention

51. Climate change is a very complex issue. It is important that we conduct necessary research and acquire sound evidence and data so that we understand how existing and new interventions can help us achieve our climate goals over time. We should reprioritise business as usual resources as much as possible to focus on essential research and communications activities now. We should also leverage the resources of our partners, universities, other research institutions and the government. I propose an additional \$900,000 funding for the following specific initiatives:

- climate assessment tools (emissions assessment tool for projects and climate change risk assessment)
- review of the Auckland Unitary Plan from a climate perspective ahead of the statutory review
- natural hazard risk assessment and data integration
- economic impacts of climate change
- Māori world view on climate change led by the Mana Whenua Kaitiaki Forum
- communications and tools to embed behaviour change.

52. There may be other foundation work that the organisation needs to undertake as part of business as usual activities or fund from existing budget, especially those that need to be completed in 2019/2020. We need to focus on research most relevant to the council's role and control, and determine the most effective ways to reduce greenhouse gas emissions and adapt to the impact of climate change already affecting us. This research will inform both the council's own future actions and our advocacy to central government for measures to achieve our national emissions targets.

### **City and town centres**

53. Around 20 per cent of Auckland's GDP is generated in the city centre. We will continue to build a city centre that Aucklanders can be proud of with an investment programme of \$6 billion in the

next five years, leveraging more than \$10 billion of private sector investment. We are preparing for 2021 when the eyes of the world will be on Auckland. Visitor and investment attraction will be boosted by big events such as the Prada Cup, the 36<sup>th</sup> America's Cup, Te Matatini Festival, ICC Women's Cricket World Cup, the Women's Rugby World Cup and other events. Our focus ahead of 2021 includes improving public transport connections to the city centre, pedestrian focused enhancements along Quay Street, and creating more public spaces in the downtown precinct to reconnect the city with the waterfront.

54. In 2020/2021, AC36 infrastructure, Lower Queen Street (Downtown Public Space), Downtown Ferry Basin Redevelopment and Quay Street Enhancement will be completed and ready for the America's Cup event. Albert Street (Customs Street to Wyndham Street) will reopen and the Upper Albert Street Upgrade will begin. High Street pedestrian improvements will be fully implemented. The Victoria Street Cycleway will be underway. Karangahape Road (K Road) enhancements are expected to be completed in late 2020, making one of Auckland's most iconic streets safer, pedestrian friendly, more attractive, and supporting the larger CRL infrastructure development and new precincts.
55. Around Auckland, a new town square will be designed for Avondale, right next to a new community facility, and a street upgrade of Crayford Street West. In Onehunga we are progressing more laneway transformations to create improved public spaces and better connections through the town centre. In Henderson, Panuku is working closely with the Henderson-Massey Local Board to build a walking and cycling bridge to make it safe to get to Opanuku Reserve, scheduled for construction at the end of 2020.
56. The new Wilsher Village in Henderson, constructed by Panuku on behalf of Auckland Council for Haumaru Housing, is delivering 40 safe and healthy homes for older people in the heart of the town centre. We will continue to partner with Haumaru Housing to find more opportunities to build new homes in the coming year.
57. In Manukau, our partnership with the Housing Foundation is delivering 330 new homes in Barrowcliffe Place. Construction is well underway to deliver affordable homes. At least 50 per cent will be sold under an affordable housing scheme, and purchase models will include rent-to-buy and shared equity to help ensure affordability. We are also designing and upgrading Barrowcliffe over-bridge to make it a better connection to the town centre for people walking and cycling. Construction will commence this year.

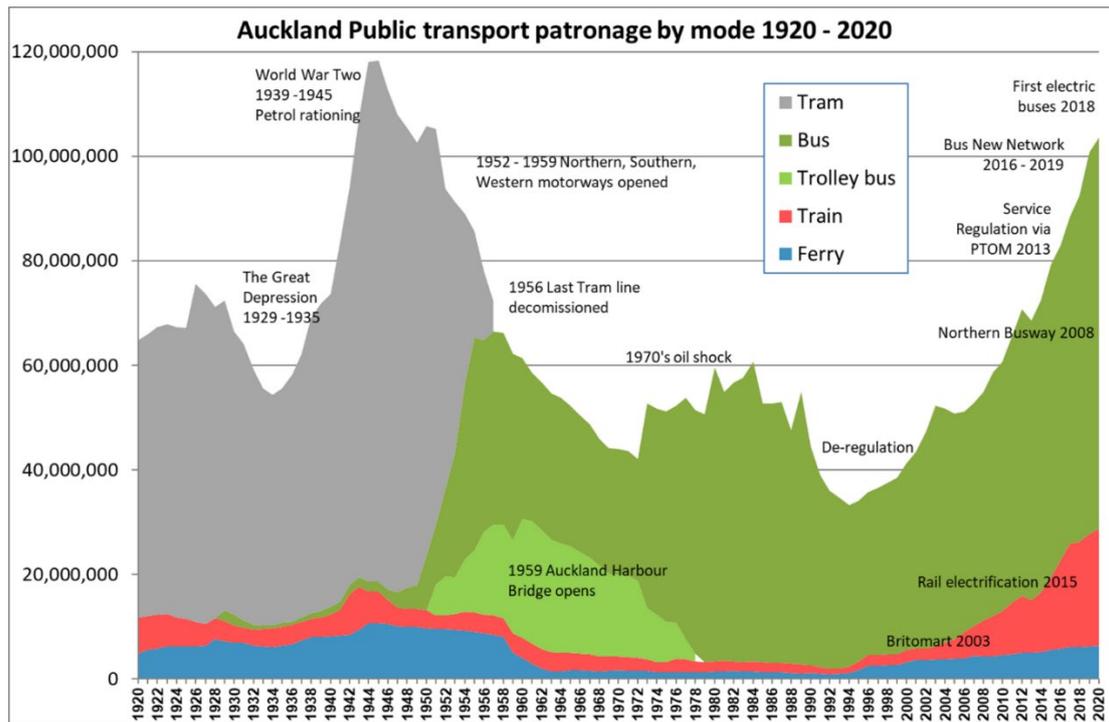
## **Transport**

58. Transport is a critical issue for Auckland, with the need to match new infrastructure to rapid population growth and improve transport options and choices for Aucklanders.
59. In the first half of 2020, the CRL works will ramp up in the midtown and K Road area, occupying the full length of Albert Street, Bledisloe carpark, Mercury Lane and Beresford Square. We are preparing for two new stations - Aotea and K Road, as well as major redevelopment of the Britomart and Mt Eden Stations.
60. In addition, Puhinui Bus-Train Interchange is due to open in early 2021 and a dedicated busway will deliver rapid transit to Auckland Airport for the first time, playing a key role in reducing congestion along the busy SH20b corridor. Work is underway on the first phase of the \$1.4 billion Eastern Busway project, which, once complete will significantly reduce journey times, ease congestion, provide local residents with a modern, reliable public transport system and

unlock the economic potential of East Auckland. More electric buses will arrive in Auckland in August 2020 and New Zealand's first hydrogen powered bus will be trialled from September 2020. These will contribute to emissions reduction. The Avondale to New Lynn shared path is due to be completed by June 2021. Once complete, it will create a continuous shared path linking New Lynn Station, Avondale Station, Waterview Shared Path and the Northwestern Path, which runs alongside the Northwestern Motorway.

Key transport projects being advanced/delivered in 2020/2021	
Regionally significant	<ul style="list-style-type: none"> <li>• Continue investing in road safety improvements, including intersection upgrades, speed limit reductions, traffic calming, traffic light phasing, signage and road markings</li> <li>• Progress City Rail Link</li> <li>• Eastern Busway - Panmure to Pakuranga busway</li> <li>• Eastern Busway phases 2-4 commencing design and delivery</li> <li>• Mill Road corridor safety related interventions</li> <li>• Ongoing delivery of airport access improvements, including the construction of the new bus/rail interchange and enhanced station at Puhinui</li> <li>• Complete the Auckland Downtown improvement programme, including ferry terminal redevelopment, transport hubs and Quay Street seawall strengthening</li> <li>• New electric trains will be operational</li> <li>• Continue delivering the Urban Cycleways Programme, including K Road Cycleway, New Lynn to Avondale, Northcote Bridge component, Point Chevalier to Herne Bay, Victoria Street, Herne Bay to Westhaven, Tamaki Drive, Westhaven to city centre</li> <li>• Implement the environmental sustainability programme, including tetra traps, electric buses, hydrogen bus trials and electric vehicle charging infrastructure</li> <li>• EMU Wiri depot wash bay and bio-pit buildings</li> </ul>
Local projects	<ul style="list-style-type: none"> <li>• Murphy's Road operational by October 2020</li> <li>• Matakana Link Road</li> <li>• Medallion Drive Link in Albany</li> <li>• Commence work on Lincoln Road upgrade</li> <li>• Rosedale bus station</li> <li>• Complete Hibiscus Coast Station/ Silverdale Park and Ride</li> <li>• Continue with clearing resilience routes for double decker buses</li> <li>• Hingaia special housing areas supporting growth projects</li> <li>• Complete Wynyard Quarter road network upgrade</li> <li>• Continuing investment in seal extension programme including Welsford Valley Road and Ahuroa Road</li> <li>• Gills Road footpath extension</li> </ul>

61. Last year, our annual public transport trips exceeded 100 million, for the first time since 1951 when trams dominated Auckland transport.



62. When agreeing to the current annual budget, AT advised of PT related operational cost pressures. The council subsequently approved an additional \$12 million in operational funding for AT in the current financial year. This was to address higher than forecasted PT patronage and additional costs resulting from bus drivers' breaks (due to changes to the Employment Relations Act). AT and the council parent are jointly investigating options to alleviate AT's future operational funding pressures and will recommend a course of action as part of the Annual Budget 2020/2021. I look forward to receiving the recommendations early next year and will consider them in the final mayoral proposal in May.

63. The free weekend PT travel for under-16 year-olds was introduced on 7 September 2019. The number of children using Auckland's PT network at the weekend has increased by more than 120 per cent since the implementation, compared to the same period last year. In the three weekends after AT started offering free fares for children, 22,945 children travelled, up from 10,377 in the same period last year. In total, 65,457 trips were made over the first three weekends, an increase of 37 per cent.

64. Free PT for under-16s aims to encourage more people to use our PT network, as well as encourage the next generation of PT users. The success of the free fares programme so far shows how willing Aucklanders are to use PT when it is made accessible and affordable. Every person using PT instead of driving or being driven in cars helps to reduce traffic congestion and carbon emissions.

[Even cheaper child fares for public transport](#)

65. Reducing fares is an effective way to encourage young people to use public transport. I propose that we reduce the cost of using PT for all school children, by increasing the subsidy to child fares for bus, train and ferry (excluding exempt services). This proposal would increase the subsidy to 50 per cent of adult fares. AT estimates the policy change will lead to an additional 355,000 PT trips per year. An additional \$4.13 million of annual funding will be needed to accommodate higher demand and lost revenue.

66. In encouraging young people to use our PT network, we are encouraging a new generation of Aucklanders to use PT as their choice for getting around the city. It will reduce children's reliance on caregivers driving them and help provide more breathing room on our roads in the morning and afternoon peaks, as we see during the school holidays. More children on public transport means less car journey on our roads.

END

# Memo

28 November 2019

To: Mayor Phil Goff  
cc: Matthew Walker, Group Chief Financial Officer  
From: Ross Tucker, General Manager Financial Strategy and Planning

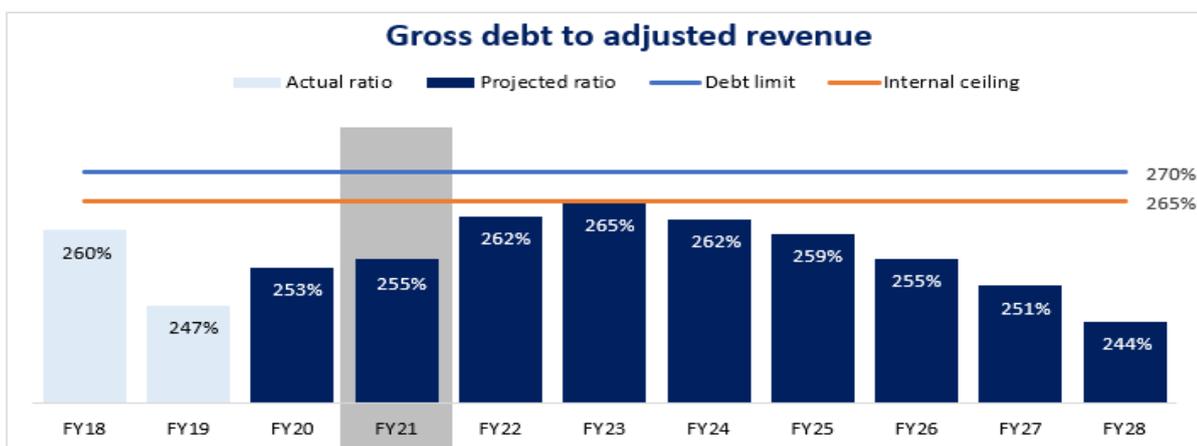
## Subject: Annual Budget 2020/2021

### Te take mō te pūrongo / Purpose of the report

- To provide advice on the financial planning context and process for the Annual Budget 2020/2021.

### Whakarāpopototanga matua / Executive summary

- The financial year 2020/2021 is the third year of the 10-year Budget 2018-2028 which was adopted in June 2018. This plan includes an unprecedented \$26 billion level of investment for Auckland alongside notable new initiatives including the acceleration of efforts to improve water quality and a ring-fenced funding to improve our natural environment.
- The projected expenditure for 2020/2021 includes \$2.7 billion of capital investment and \$695 million of net direct expenditure<sup>1</sup> for Auckland Council Group. The key funding settings for this year are an average general rates increase limited to 3.5 per cent and \$0.8 billion increase in borrowing.
- The projected debt to revenue ratio for 2020/2021 sits at 255 per cent, against an internal ceiling of 265 per cent. For the subsequent years, it is projected to rise to 262 per cent in 2021/2022 and reach the internal ceiling in 2022/2023. This means there is very limited capacity for additional investment over the next three years and any substantial new investment would require additional revenue or reprioritisation of the capital programme.



<sup>1</sup> Net direct expenditure refers to the operating expenditure net of revenue collected from day-to-day operations. It excludes accounting and finance factors such as depreciation, interest, vested assets and rates income.

5. The budget for 2020/2021 will be updated in the following months to reflect any council decisions, updates to budget timing projections, and any changes to our significant forecasting assumptions.
6. Staff have prepared a Financial Planning Pack for Auckland Council Group which was introduced at the recent Finance and Performance Committee Workshop to help inform the Annual Budget 2020/2021 decision-making process.

## **Horopaki / Context**

7. The 10-year Budget 2018-2028 includes an unprecedented \$26 billion level of investment for Auckland alongside notable new initiatives including the acceleration of efforts to improve water quality and a ring-fenced funding to improve our natural environment. The financial year 2020/2021 is the third year of the 10-year Budget.
8. Subsequent revisions were made to 2020/2021 budgets since the adoption of the 10-year Budget, reflecting updates for budget timing projections and council decisions made primarily as part of the Annual Budget 2019/2020 process.

## **Tātaritanga me ngā tohutohu / Analysis and advice**

### **Annual Budget 2020/2021 starting point**

9. The 10-year Budget 2018-2028 has been updated as part of the Annual Budget 2019/2020 process. The updated projections include \$2.7 billion of capital investment and \$695 million of net direct expenditure.
10. This investment is planned to be funded from a number of sources including:
  - average general rates increases to existing ratepayers of 3.5 per cent,
  - targeted rates such as the Water Quality Targeted Rate and Natural Environment Target Rate,
  - user charges at appropriate levels of cost recovery,
  - subsidies from central government to support transport operations and investment,
  - infrastructure growth charges and development contributions to recover the costs of infrastructure provided to support growth
  - \$0.8 billion of additional borrowing.
11. A priority in setting the 10-year Budget was maintaining a sustainable approach to borrowing. This is supported by setting a prudential limit to our borrowing at 270 per cent of our revenue and an internal target of 265 per cent. These levels ensure we can maintain our strong credit rating and good access to credit markets and competitive interest rates.
12. While the projected Auckland Council Group debt to revenue ratio for 2020/2021 sits at 255 per cent, the forecast level of borrowing indicates that this will rise to 262 per cent by the following year and reach the internal ceiling of 265 per cent in 2022/2023, meaning the capacity for additional investment above that planned is very limited.

### **Financial Planning Pack**

13. Staff have prepared a Financial Planning Pack for Auckland Council Group which was introduced at the recent Finance and Performance Committee Workshop and distributed afterwards.
14. This document presents information on key activities and services, historical financial and non-financial performance, and current budgets for each council entity to provide context and help inform the Annual Budget 2020/2021 decision-making process.

### **Financial planning considerations**

15. At this stage, no significant budget changes trigger statutory requirements for consultation.
16. Emerging key financial planning considerations for 2020/2021 include items such as potential interest savings and continued operating pressures in Auckland Transport. More information on these items will be provided through the March – May 2020 stage of the Annual Budget process. A summary of the current key items can be found below:

#### **Initial Climate Change response**

With the climate emergency declaration, staff are exploring options for key opportunities to reduce council emissions and prepare the city for a changing climate. Current considerations include reducing and electrifying council fleet, phasing out of gas boilers and installation of solar panels for community pools, and planting more trees.

#### **Auckland Transport key considerations**

Growth in patronage for public transport has exceeded previous estimates, resulting in more people taking public transport. However, this success has resulted in additional cost pressures for Auckland Transport. Along with recent changes in the Employee Relations Act and City Rail Link related costs, Auckland Transport has an operating deficit to address. Staff are currently assessing the impact of these changes and will report back during the Annual Budget process.

#### **Panuku key considerations**

With the large scale of development in Wynyard Quarter, Panuku identified two sites where significant de-contamination works were required. Staff are working on quantifying the impact and will report back during the Annual Budget process.

#### **Regional Facilities Auckland (RFA) key considerations**

Lower than budgeted returns from commercial activities and adverse weather conditions from the past few years have resulted in RFA's continued operating deficits. RFA is also working on developing options on modernising their front of house IT systems.

#### **Auckland Council key considerations**

The level of funding to maintain our community assets has been a challenge. Many community facilities have been identified as having seismic risks or are in poor condition. The Streetscape services transferred from Auckland Transport has also increased the funding requirement for repair and maintenance. In addition, market insurance premiums increased significantly since last year, adding pressure on insuring the council's large and growing asset base.

#### **Interest savings opportunity**

Market interest rates have recently fallen and may result in interest savings. Staff are working on scenario analysis to assess the likely savings, which will help with managing the above pressures.

## **Budget update process**

17. Throughout the year council staff will continue to update projections for 2020/2021 to incorporate the effect of any relevant council decisions, updates to the latest cost, revenue and timing projections, and any changes to our significant forecasting assumptions.
18. Council staff regularly review the projected costs and timings of planned investments and operations. These updated projections are incorporated into budget models to ensure decisions are well informed.
19. The 10-year Budget included a set of significant forecasting assumptions to support financial projections. These are regularly reviewed to support accurate cost and revenue forecasts. The key items for review include:
  - Inflation – reviewed in collaboration with the council’s Chief Economist,
  - Growth projections – reviewed with the Research and Evaluation Unit,
  - Interest rates – confirmed by our Treasury Department,
  - Timing of capital expenditure – reviewed by the Financial Strategy and Planning Department.
20. Council staff will continue to focus on delivering best value for money through both capital and operating investment and will update budgets to reflect identified savings or more efficient delivery approaches.