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

**Date:** Tuesday, 11 August 2020  
**Time:** 2.00pm  
**Meeting Room:** Reception Lounge  
**Venue:** Auckland Town Hall  
301-305 Queen Street  
Auckland

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

**OPEN ADDENDUM AGENDA**

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**MEMBERSHIP**

**Chairperson**  
Cr Desley Simpson, JP

**Deputy Chairperson**  
Cr Shane Henderson

**Members**  
Cr Josephine Bartley  
IMSB Member Renata Blair  
Cr Dr Cathy Casey  
Deputy Mayor Cr Bill Cashmore  
Cr Fa’anana Efeso Collins  
Cr Pippa Coom  
Cr Linda Cooper, JP  
Cr Angela Dalton  
Cr Chris Darby  
Cr Alf Filipaina  
Cr Christine Fletcher, QSO

**Mayor Hon Phil Goff, CNZM, JP**  
**Cr Richard Hills**  
**Cr Tracy Mulholland**  
**Cr Daniel Newman, JP**  
**Cr Greg Sayers**  
**Cr Sharon Stewart, QSM**  
**IMSB Chair David Taipari**  
**Cr Wayne Walker**  
**Cr John Watson**  
**Cr Paul Young**

*(Quorum 11 members)*

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Sandra Gordon  
Kaitohutohu Mana Whakahaere Matua / Senior Governance Advisor  

11 August 2020

Contact Telephone: (09) 890 8150  
Email: sandra.gordon@aucklandcouncil.govt.nz  
Website: www.aucklandcouncil.govt.nz

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**Note:** The reports contained within this agenda are for consideration and should not be construed as Council policy unless and until adopted. Should Members require further information relating to any reports, please contact the relevant manager, Chairperson or Deputy Chairperson.
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<thead>
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<td>Emergency Budget 2020/2021 - Update August 2020</td>
<td>5</td>
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Te take mō te pūrongo

Purpose of the report

1. To provide the committee with financial update information since the Emergency Budget was adopted, including the monitoring of emergency budget savings.

Whakarāpopototanga matua

Executive summary

2. The Emergency Budget 2020/2021 was adopted by the Governing Body on 30 July 2020.

3. As the COVID-19 situation is still evolving, its financial impacts on council remain uncertain. As the 2020/2021 year progresses, Finance staff will monitor the financial performance of the council and its CCOs to ensure the group can respond to any material changes to the Emergency Budget. Staff will report to the Finance and Performance Committee on a monthly basis.

4. This month the key budget updates are:
   - Providing a verbal update on progress for 2020/2021 and proposing an approach to address any material variations from funding and budget capacity.
   - Updating the committee on the shovel-ready process, and approving additional shovel-ready expenditure not initially included in the Emergency Budget

Proposed approach to improvement in funding and budget capacity

5. A verbal update on the Emergency Budget progress, and council parent savings, will be provided at the meeting.

6. Staff advice is that the prudent response for any improvement in funding capacity would be to reduce debt for the first half of the financial year. This approach would leave a stronger buffer against future shocks and would reserve capacity for Long-term Plan priorities.

7. It would be appropriate to review this approach after the first half of the financial year finishes on 31 December 2020. This would allow for a full reassessment of council and CCO financial performance, as well as group targets such as asset recycling.

Update on the shovel-ready process

8. In April 2020, the council submitted a list of 73 projects for consideration of government shovel-ready funding. Approximately $350 million of central government funding has now been confirmed as follows:

<table>
<thead>
<tr>
<th>Project name</th>
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### Item 9

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*This is only the shovel ready component. The council’s $3.4 million contribution towards the $14.1 million total project cost is allowed for in the Emergency Budget.

9. The funding is subject to a number of terms and conditions primarily around meeting agreed milestones, covering any cost overruns and achieving the benefits represented when submitting the project, for example achieving the stated employment numbers.

10. The funding agreements for the two Auckland Council projects were signed by the council’s Acting Chief Executive on 6 August 2020. The agreements operate by requiring Crown Infrastructure Partners (CIP), the government agency designated as responsible for funding these projects, to pay the relevant council entity on the completion of milestones.

11. The council has worked with CIP to set realistic milestones, which maximise the amount of funding that can be recovered in each financial year, to minimise any impacts on the council’s debt.

12. Due to the proximity of the funding confirmation to the adoption of the Emergency Budget, a number of assumptions were made about shovel-ready funding and expenditure. Currently there is no budget for the shovel-ready portion of the funded expenditure (and associated funding) for the Resource Recovery Network project. $5.2 million of additional capital expenditure in 2020/2021 needs to be approved to ensure the project can proceed as agreed with CIP.

13. At this stage work is still progressing with central government and Kāinga Ora on the details of the funding arrangements for the $188 million of infrastructure to support the Auckland Housing Programme. An update on this will be brought to a future meeting of this committee.

### Ngā tūtohunga

**Recommendation/s**

That the Finance and Performance Committee:

a) receive the verbal budget update on progress for financial year 2020/2021

b) agree that it is prudent to reduce debt for the first half of the financial year in the event of any material improvement in funding and budget capacity in 2020/2021

c) endorse the Acting Chief Executive agreeing to both the Te Whau Pathway and the Resource Recovery Network funding agreements, which enables the council to receive shovel-ready funding on the completion of project milestones subject to appropriate terms and conditions

d) approve $5.2 million of additional capital expenditure, and associated shovel-ready funding, in 2020/2021 for the Resource Recovery Network project.
Horopaki

Context

14. The Emergency Budget 2020/2021 was adopted by the Governing Body on 30 July 2020.

15. The financial implications of COVID-19 were highly uncertain at the time when the Emergency Budget was prepared. Therefore, the adopted budget was developed based on a set of forecasting assumptions for a “most likely scenario”. Key assumptions included government decisions on alert levels and the economic outlook.

16. The final budget included a projected reduction in cash operating revenue of around $450 million for 2020/2021 as a result of COVID-19 and a range of measures including reductions in discretionary expenditure, temporarily elevated debt levels, capital expenditure deferrals, temporary reductions in operating service levels and asset recycling to mitigate the impact of this revenue shortfall as well as the unprecedented drought situation.

17. As the COVID-19 situation is still evolving, its financial impacts on council remain uncertain. As the 2020/2021 year progresses, Finance staff will monitor the financial performance of the council and its CCOs to ensure the group can respond to any material variations from the Emergency Budget. Staff will report to the Finance and Performance on a monthly basis.

Tātaritanga me ngā tohutohu

Analysis and advice

Proposed approach to improvement in funding and budget capacity

18. The COVID-19 situation is still evolving and financial projections for 2020/2021 are likely to change. Elected members have requested advice on how to address any improvement in funding and budget capacity in the 2020/2021 financial year. In response to this request, staff advice is that it would be prudent to reduce debt for the first half of the financial year, for the following key reasons:

- Leaving a buffer against future shocks
- Providing a strong signal to credit rating agencies about the council’s commitment to financial prudence
- Ensuring better access to debt markets when needed
- Reserving capacity for Long-term Plan priorities (which may need to have a strong focus on actions to support recovery)

19. Staff also advise that an appropriate time to review this approach would be after the half-year finishes on 31 December 2020. At that point the overall financial picture can be reassessed based on the six-monthly operating and capital financial performance as well as progress with asset recycling, updated debt levels and a revised economic outlook.

Update on shovel-ready project funding

20. In April 2020, as part of its response to COVID-19, the government announced that it was looking to fund “shovel-ready” projects to help stimulate the economy and create a pipeline of work for the construction industry. The government created a $3 billion provision for these projects, with $500 million set-aside for the Auckland region.

21. The council worked collaboratively with councillors, local boards, and council departments across the group to create and submit a list of 73 projects before the deadline of 14 April 2020.
22. The government recently confirmed funding for the following Auckland Council projects:

- **Te Whau Pathway (agreed shovel-ready funding: $35.3 million):** a shared path that will link the Waitematā and Manukau harbours. The main alignment is approximately 11.8km with 3.2km of connecting paths, a total length of 15km. The pathway will largely follow the western side of the Whau River and will be designed to accommodate pedestrians and cyclists.

- **Auckland Resource Recovery Network (agreed shovel-ready funding: $10.7 million):** includes infrastructure investment in eight sites across the Auckland region. This project will fast track the effectiveness of the Resource Recovery Network through developing fit for purpose infrastructure to support resource recovery activity and a shift to a circular economy. The total cost of this project is $14.1 million, with Auckland Council agreeing to fund the remaining $3.4 million. This co-funding was allowed for in the Emergency Budget.

23. Three Auckland Transport projects also had shovel-ready funding confirmed:

- Ferry basin redevelopment - Stage 1 (shovel-ready funding: $42 million)
- Puhinui bus-rail interchange (shovel-ready funding: $22.1 million)
- North-western bus improvements (shovel-ready funding: $50 million, plus $50 million of NZTA funding)

24. The Emergency Budget conservatively assumed $30 million of funding for the Ferry basin redevelopment – Stage 1 and Puhinui bus-rail interchange in 2020/2021. The initial cashflow projections since funding was confirmed suggests this may be higher, which may provide some additional funding capacity in 2020/2021. Finance staff and Auckland Transport will continue to develop these cashflow forecasts and update the committee at a future meeting.

25. Funding of $188 million of mostly three waters (water supply, wastewater and stormwater) projects relating to delivering housing in the AHP (Auckland Housing Programme) areas - Tamaki, Mt Roskill, Northcote and Mangere – has also been announced. At this stage it is expected that Kāinga Ora will receive the funding, while project delivery is expected to be in collaboration with the council group.

26. The council is still discussing with Kāinga Ora and central government the implications of this funding in the short-term and on the entire AHP programme. As such, this item is out of scope of this budget update and will be brought to a future meeting of this committee.

27. The AHP projects are not included in the council’s 2020/2021 budgets. As any funding that comes to council will be offset by additional expenditure, it is unlikely any debt capacity will be created in the short-term.

28. The total funding to be provided from shovel-ready is around $350 million as follows:

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**Funding agreements**

29. After the funding was confirmed, both Auckland Council and Auckland Transport have worked with Crown Infrastructure Partners (CIP), the government's responsible agency for funding these projects, to finalise the required funding agreements.

30. The funding agreements operate by requiring CIP to provide funding to the relevant council entity on the completion of agreed milestones.

31. The funding agreements for the Auckland Transport projects are between Auckland Transport and CIP and were signed by the Auckland Transport Chief Executive on 7 August 2020 and sent to the relevant Minister to co-sign.

32. The funding agreements for the two Auckland Council projects were signed by the council’s Acting Chief Executive on 6 August 2020 and sent to the relevant Minister to co-sign.

33. The funding for the two Auckland Council projects is subject to a number of terms and conditions; the most critical being:

- The site works must commence within 12 months and the project must meet agreed milestones at the specified times. Failure to meet the projected project milestones on time, is cause for CIP to withhold funding and terminate the Agreement if the delay becomes unreasonable.

- The projects must achieve the benefits (i.e. job creation numbers, number of full-time jobs, social benefits, economic benefits, apprenticeships created, etc.) that council represented in the application and in the Agreement. CIP can terminate the Agreement if the benefits information is materially incorrect or misleading (whether intentionally or not), and/or if material information was omitted from council’s application/Agreement.

- Auckland Council must fund any cost overruns.

- The project scope must remain as described in the funding agreement. There can be no material reduction to scope without CIP’s prior written consent. Further, there can be no material increase to scope without first satisfying CIP that the recipient can fund or finance such additional scope.

**Shovel-ready budget update**

34. Due to the proximity of the shovel-ready announcements to the adoption of the final Emergency Budget, a number of assumptions about what to include in budgets were made on the basis of publicly available information at the time. These assumptions will need to be updated throughout the year to match the latest forecasts.

35. While the Emergency Budget did include provision for the council’s $3.4 million contribution for the Resource Recovery Network, it did not include budget for shovel-ready funded expenditure (and the associated funding) for the Resource Recovery Network project.

36. It is recommended that additional capital expenditure of $5.2 million for this project for 2020/2021 be approved by this committee, aligning to the current forecasts of the project plan.
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37. Budgets beyond 2020/2021 for all five shovel-ready projects will be considered as part of the 10-year Budget 2021-2031 (LTP) process.

**Tauākī whakaaweawe āhuarangi**

**Climate impact statement**

38. Ensuring the council remains financially prudent enables the council to maintain the confidence of the public and investors. This in turn enables the council to retain access to financial markets and maintain the ability to use debt over time to address the climate crisis. Using possible additional capacity to pay down debt will help maintain confidence and creates additional capacity for the 10-year Budget 2021-2031 when considering climate priorities.

39. The climate impacts of each shovel-ready project were considered when developing the shovel-ready list for submission. There are no additional climate impacts in endorsing funding agreements and agreeing additional expenditure.

**Ngā whakaaweawe me ngā tirohanga a te rōpū Kaunihera**

**Council group impacts and views**

40. Progress against the Emergency Budget will be monitored across the entire council group. The approach to how additional funding capacity is used should be consistent and co-ordinated across the various council entities, unless funding is provided to a particular entity for a particular purpose.

41. The council has authorised the Development Programme Office (DPO) to provide central oversight over all shovel-ready projects where the council group is involved. DPO will ensure that the programme remains coordinated and achieves the best outcomes for the council group as a whole. There are no additional group impacts in endorsing funding agreements and agreeing additional expenditure.

**Ngā whakaaweawe ā-rohe me ngā tirohanga a te poari ā-rohe**

**Local impacts and local board views**

42. Local board views and preferences were taken into account when the Emergency Budget was adopted. The monitoring of progress against the Emergency Budget includes local board budgets.

43. The local impacts of each shovel-ready project were considered when developing the shovel-ready list for submission. There are no additional local board impacts in endorsing funding agreements and agreeing the additional expenditure. The Development Programme Office will continue to engage with the relevant local boards when monitoring the progress of the shovel-ready programme.

**Tauākī whakaaweawe Māori**

**Māori impact statement**

44. Māori impacts were a key consideration in the Emergency Budget process.

45. The Māori impacts of each shovel-ready project were considered when developing the shovel-ready list for submission.

46. There are no additional Māori impacts in endorsing funding agreements and agreeing additional expenditure.

**Ngā ritenga ā-pūtea**

**Financial implications**

47. The implications on the council’s budgets are discussed in the main body of the report above. Approving the additional expenditure for the Resource Recovery Network will not have any effect on council’s borrowings as this is fully offset by additional funding.
Ngā raru tūpono me ngā whakamaurutanga
Risks and mitigations

48. As the financial year progresses and the COVID-19 situation develops, there is risk that changes to the wider socio-economic environment will impact on the council’s financial position compared to projections in the Emergency Budget. This will require close monitoring to ensure council is able to best respond to these changes.

49. The key risks identified in this update on the shovel-ready programme are:
   • The council must pay for any cost overruns on the projects.
   • Since payment is received on the completion of milestones, by the terms of the funding agreements, the council is effectively financing the projects in the short-term. If there are delays in receiving funding, or the funding was not provided at all, this would put pressure on the council’s borrowings.

50. To mitigate both these risks, council staff have:
   • completed due diligence on the funding agreements to ensure the council can fulfil its obligations
   • worked with CIP to agree milestones which, within reason, maximise cashflow to be received within each financial year
   • appointed the council’s Development Programme Office to provide central oversight over all shovel-ready projects where the council group is involved (including AHP projects)

51. The council will also continue to work collaboratively with CIP and other crown agencies to jointly ensure funding and financing issues do not arise and hinder the desired outcomes for Auckland and the flow-on benefits to New Zealand as a whole.

52. On this basis, the council Chief Executive has signed the funding agreements. There are no additional risks with the Finance and Performance Committee endorsing the agreements.

Ngā koringa ā-muri
Next steps

53. Finance staff will continue to monitor current and future cashflow projections and update this committee when there are further developments.

54. The relevant project teams will commence and continue to execute the shovel-ready project plans for each project. The Development Programme Office will begin to monitor the delivery of shovel-ready works. This monitoring will report back to council management, relevant committees and Crown Infrastructure Partners as required.

Ngā tāpirihanga
Attachments
There are no attachments for this report.

Ngā kaihaina
Signatories

<table>
<thead>
<tr>
<th>Authors</th>
<th>Nick Bird - Financial Analyst</th>
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<tbody>
<tr>
<td></td>
<td>Tracy Xu - Senior Analyst</td>
</tr>
<tr>
<td>Authorisers</td>
<td>Ross Tucker - General Manager, Financial Strategy and Planning</td>
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<td>Kevin Ramsay - Acting Group Chief Financial Officer</td>
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